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# China

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## UNITED STATES

### Wu Zhan on Nuclear Deterrence

40050219 Beijing MEIGUO YANJIU [AMERICAN STUDIES] in Chinese No 1, 15 Feb 88 pp 35-49

[Article by Wu Zhan [0702 1455], deputy director, American Studies Institute: "Nuclear Deterrence"]

[Text] Nuclear weapons, in particular thermonuclear weapons, i.e., hydrogen bombs, have unprecedented destructive power. It is said the explosion of a few hydrogen bombs can practically wipe out a city of several million people, and no effective defense has so far been found against the ballistic missile mounted nuclear warhead. At present, the two nuclear superpowers, the United States and the Soviet Union, have stockpiled more than 20,000 large and small nuclear weapons. If a nuclear war should break out, both sides would suffer hundreds of millions of casualties and inestimable property damage of a severity that by far exceeds that of World War II. Who wants to suffer a calamity of these dimensions? People are afraid of nuclear war, that is why nuclear weapons serve as deterrents, so that countries possessing nuclear weapons will not dare start a nuclear war.

The idea of deterrence is an old one. In the Three Kingdoms period, Cao Zhi, the son of Cao Cao, has the following phrase in one of his poems: "With the deterrent of 10,000 war chariots, he is Lord of the Empire." Even earlier by a few hundred years, Sun Wu, the famous strategist of China's Spring and Autumn period, in chapter "Strategy of Attack" in his 13-chapter work "Suntzu" writes on "breaking the enemy's resistance without fighting." It implies the idea of having a powerful military force to back up efforts through diplomatic channels that will achieve subjugation of the enemy. In his book "A Grand Strategy for the West" the former West German Chancellor Schmidt also wrote: "The principle of deterrence is not at all an invention of the 20th century, the Greeks and Romans knew already very early to use the threat of something awful surpassing any benefit that could be gained to frighten away any potential attacker."

#### 1. U.S. Policy of Nuclear Deterrence

After the emergence of nuclear weapons, the term "deterrence" became extensively used in the United States and in the West. Nuclear deterrence means to threaten the enemy with an unbearably powerful retaliation so that he will not dare attack. The use of nuclear weapons is of course not limited to having them serve as deterrence, they may also serve as nuclear protective umbrella for one's allies, and if nuclear deterrence fails, they can also be used to wage war, but deterrence is beyond doubt their main role. The concept of the protective umbrella has originated from the deterrence school of thought, the purpose of it being to guarantee that one's allies will not be attacked. However, if the

Soviet Union would attack Western Europe with its powerful conventional forces, or even with the employment of nuclear weapons, but without directly attacking the United States, it is very much a question whether the United States would then really counterattack the Soviet Union with nuclear weapons and thereby risk nuclear retaliation. Whether after failure of nuclear deterrence, nuclear weapons would really be used in war, is now merely conjecture. At present, there is no sign yet that nuclear deterrence could fail. Preparations to use nuclear weapons are useful in one respect, namely such preparedness increases the efficacy of nuclear deterrence, as it gives everyone the impression that nuclear weapons will be used in war, once they have failed to act as deterrents.

As far as the United States is concerned, nuclear deterrence depends on:

- 1) Possession of actual, powerful nuclear strength;
- 2) The resolve to use this strength;
- 3) Realization by both sides that the issue at stake concerns primarily important interests of the state.

If no nuclear weapons would be actually available for use in war, empty threats would be ineffective. If there are nuclear weapons available but if there is no resolve to resort to nuclear war, there would also be no deterrent effect. This touches on the question of credibility. If people do not believe in the threat, no deterrent effect can be created. The United States believes in the need for a large arsenal of nuclear weapons of highest quality, and, moreover, publicizes all related data. The United States also considers survivability necessary for nuclear weapons, i.e. when subjected to a surprise attack, a sufficient quantity will be preserved to launch a retaliatory strike. The United States has, therefore, constructed hardened underground silos for its intercontinental ballistic missiles, has placed ballistic missiles on nuclear submarines to be fired from underwater, and equipped strategic bombers with long-range cruise missiles. It will not be possible to destroy in one attack the entire force of this "triad" of strategic strength. If danger arises in the international situation, the United States will frequently move its nuclear forces, upstage its military alert, and proclaims or indirectly indicates that it is ready to use nuclear weapons to show its resolve to resort to nuclear military force.

Nuclear deterrence is somewhat like a "pas de deux" that cannot be danced without a partner. The power of nuclear weapons is so huge, and the effect so enormous, that unless the dispute involves the highest life-and-death interests of the nation, and regardless of all posturing, no one will believe in the intention to use nuclear weapons. It is therefore necessary to demonstrate this resolve at an apt occasion and on an apt issue, so that the other side is in every possible way made to believe in the resolve. It is said that during the Korean War, the United States had threatened China with the use of nuclear weapons. If that is true, the Chinese had shown that they were not afraid to die, why should they have taken heed

of this! Actually, the United States at that time had only a few atomic bombs, not enough to subjugate so large a country as China. If they would have fired them all at China, what would the United States have left to deal with the Soviet Union? Some smaller countries are even less likely to be intimidated by nuclear weapons because they just will not believe that a superpower will use nuclear weapons against a small country.

## 2. Development of a U.S. Nuclear Strategy

From the end of World War II to the early 1950's, the United States had a monopoly in nuclear weapons and was in a distinctly superior position vis-a-vis the Soviet Union. In one of his speeches in 1954, Secretary of State Dulles proclaimed the nuclear policy of "massive retaliation." That meant, that the United States would retaliate against any communist country with a large-scale nuclear bombardment. That retaliation would be comprehensive, it would hit military targets as well as nonmilitary targets, it would hit factories as well as cities.

When Kennedy became president in the 1960's, his secretary for defense, McNamara, raised such concepts of nuclear strategy as "assured destruction," "damage limitation," and "flexible response." The United States changed its strategy because the Soviet Union had by then achieved a considerable development of its nuclear armament, so that the United States had lost absolute superiority. If "massive retaliation" would have been lightly used on any occasion, it would certainly have evoked a nuclear retaliation against the United States in return.

"Assured destruction" means that after the first strike by the enemy (to avoid retaliation, he would have to first attack strategic attack forces), the United States would have to preserve sufficient nuclear weapons to effect a destructive retaliation against enemy cities and industrial areas (second strike). McNamara believed that it would be absolutely impossible to destroy by a first strike the entire triad of strategic attack forces; there would at least be the potential survivability of the powerful strategic missile submarines. The nuclear submarines can remain submerged for a long time; they would be difficult to detect and to hit. Although of low accuracy, missiles launched from submarines could hit cities. Because the Soviet Union had also acquired nuclear strength comparable to that of the United States, it could similarly use "assured destruction" against the United States, which would end in a "mutual assured destruction." As a result, a deterrence directed against the other party would have the effect of deterring oneself too.

"Damage limitation" means reducing as far as possible the damage caused by nuclear war. In the beginning, McNamara had the idea to wipe out with one nuclear attack most of the enemy's nuclear weaponry, and to strengthen own security with defensive measures. However, nuclear attack means launching nuclear war, and is

therefore not a desirable procedure. The defensive method is either active defense, which means use of anti-missile systems to shoot down warheads of missiles (for which no technological solution has so far been found) and to use the air defense system to intercept invading bombers. The other defensive method is passive defense, namely to build large numbers of civil air raid shelters, which, because of the high cost involved, is impractical.

"Flexible response" means dividing nuclear retaliation into four stages. The lowest stage is to hit only military targets (counterforce). The highest stage is comprehensive attack. To divide retaliation into stages gives the U.S. President the opportunity to select a strategy that will suit the situation at hand. The U.S. Defense Department has, therefore, appropriately revised its plan into a "single integrated operational plan (SIOP)," which embodies the various groups of objectives to be attacked and the warfare strategy, all well planned in advance.

McNamara laid the foundation for U.S. nuclear strategy. Apart from "damage limitation," which is unrealistic and need not be mentioned any further, his entire strategic thinking has been adopted by every U.S. administration up to now. There are roughly two schools of thought in U.S. strategic thinking: One is the deterrence school of thought, which believes in avoiding nuclear war by nuclear deterrence; and the other is the war faction, who believe it is possible to fight a nuclear war, and that it is therefore necessary to formulate war plans. Official nuclear strategy incorporates both schools of thought. The policy that is openly announced emphasizes mainly deterrence, but contains also some hints of "war thinking." One may say that "assured destruction" is the core of U.S. nuclear deterrence, and if this cannot deter the other side, then "flexible response" and the SIOP will be the specific lines of further action. The United States cannot possibly destroy any other party if it means self-destruction; a suicide plan will not convince anybody. The only remaining option is to first launch a small retaliation, and if that is not effective, escalate by degrees. This is the only believable way, the only way to enhance the efficacy of deterrence. The later "flexible responses" will only be developments and improvements of this plan, while the overall policy remains unchanged.

By the 1970's, the Soviet Union had reached approximate equality with the United States in strategic strength. Most of the Soviet strategic nuclear weapons are land-based intercontinental ballistic missiles. They have large warheads and are deployed in large numbers, thus constituting a serious threat to the United States. Two defense secretaries in their days, first Schlesinger and then Brown, both changed SIOP, providing "flexible response" with more detail and many more stages. At that time, the United States had achieved great advances in intercontinental guided missiles technology, having developed not only the multiple-warhead multitargeted

missile technology, but also a distinctly improved accuracy. The accuracy of hitting military targets was developed to the extent that even missile silos (countersilo) could be hit. Because the number of warheads was increased, the number of objectives to be hit could be increased, and the stage of "flexible response" could naturally also be planned in much more detail. At the same time, the United States improved communication, command, and control systems for its nuclear weaponry, enhanced survivability, and changed the flexibility of objectives to be attacked. Brown also set forth the so-called "countervailing strategy," that is, to carry out a response which would correspond to the degree of a Soviet attack, with the possibility of hitting one target, or several targets, or a multitude of targets, up to a massive attack, that could range from attacks on military targets to a comprehensive overall attack.

In the 1980's, when Reagan became president, he too made further changes in SIOP. Subsequent to progress in antimissile missile technology, he proposed in 1983 the "strategic defense initiative" [SDI]. This was to be the establishment of a gigantic strategic defense system against missiles; it was supposed to destroy by far most of all incoming missiles. With great confidence he asserted that in future "assured destruction" would become "assured survival." Because SDI would have this great effectiveness, there would be no need for "mutual assured destruction" to ensure peace, and people would not have to live under a "balance of terror." His initiative evoked a wave of anxiety throughout the world, because many feared it would lead to an even more intense nuclear arms race. Western Europe was afraid that after the United States would have solved the problem of its own defense, it would withdraw its protective nuclear umbrella and would not care anymore about the defense of Western Europe. The Soviet Union, because of its backwardness in high technology, feared that it would lose out in the strategic defense competition, and that unless it kept up the arms race, it would get into a position of inferiority. Reagan's optimistic appraisal was somewhat premature. Practical experience during several years of SDI research have proven that no solution could yet be found for several relevant critical technologies. If an immature initial SDI system would be deployed in the future, it would not only cause a huge military expenditure, but would also not provide solutions to all the problems. The U.S. government finally again announced that in the foreseeable future "assured destruction" will still be its main strategy, while SDI will then function as a reinforcement of deterrence.

### 3. The Soviet Union's Reaction

Since the U.S. policy of nuclear deterrence is mainly intended as a psychological threat, does the Soviet Union see it in the same way? If the Soviet Union does not accept it as serious, nuclear deterrence would be ineffective.

The Soviet Union followed the United States in nuclear armament. It is said that the Soviet Union stole U.S. technology even before the testing of the atomic bomb. Soviet nuclear strategy is essentially a reaction to American nuclear strategy.

When the United States had absolute superiority in nuclear strength, the Soviet Union was very fearful of a nuclear attack, and, therefore, made strenuous efforts in the development and deployment of nuclear weapons. Although Khrushchev in 1956 said that war is not inevitable, because the military power of the Soviet Union had been greatly expanded, they believed all along that if war should break out, it would certainly be nuclear war. They also believed that in such an eventuality it would be best to gain the initiative by striking first, to reduce possible damage to the Soviet Union.

The Soviet Union later quickly developed its own nuclear armament. In 1957, the Soviet Union, by pooling all its resources, was able to rush and overtake the United States in testing intercontinental ballistic missiles. Furthermore, in 1959, they set up a strategic rocket detachment, and finally, in January 1960, Khrushchev reported to the Supreme Soviet: "If any country or bloc of countries would launch a surprise attack against a power that possesses nuclear or rocket armament...would it be able to immediately render ineffective the whole arsenal of nuclear weapons and all rocket installations over the whole territory of the power which it attacks? It would, of course, not be able to do that. If the country of this example that is being attacked is sufficiently large, it would always be able to retaliate appropriately against the aggressor." Not without satisfaction, Khrushchev expounded his view on the nuclear deterrence, because the Soviet Union was first to possess intercontinental ballistic missiles, but actually at that time had deployed only a few of these crudely constructed and technologically immature missiles. The missiles which the Soviet Union had mainly deployed at that time were intermediate-range missiles with a range that was below a capability to reach the United States. The United States truly thought that it had fallen behind, and this gave rise to talk about a "missile gap." Only later it became clear that this was not the case. After 1957, the United States quickly overtook the Soviet Union. In 1962, Khrushchev resorted to the adventurous method of sending intermediate-range missiles to Cuba, as a threat against the United States. But in the end he had to make a disheartened retreat under pressure of the powerful military strength of the United States.

After 1966, because of its great progress in nuclear weaponry, the Soviet Union had gained greater confidence—or was it because the United States with its new "flexible response" strategy indicated that the United States too was in fear of nuclear war—the Soviet Union tended to believe that nuclear war was not necessarily inevitable, and the idea of a preemptive attack was not much mentioned anymore.

In November 1969, during the Helsinki negotiation on limitation of strategic armament, the Soviet delegation declared: "Even if one side should be first attacked, it will no doubt retain capability for a destructive retaliation. We are therefore all agreed that a war between two countries would be disastrous for both sides, and that it would mean suicide for the party that had decided to launch a war."

In 1973, Admiral of the Fleet of the Soviet Union Gorshkov wrote in issue No 2 of the "Collection of Navy Stories:" "Survivability is much greater for underwater carriers of than for land-based launchers; they are a more effective method of deterrence. They are a continuous threat against any aggressor. When the aggressor will understand that he will not be able to prevent a nuclear retaliation from the sea, he will possibly be compelled to give up any idea of nuclear war."

All the writings referred to in the above, make it clear that the Soviet view on nuclear deterrence is not much different from that of the United States. Since the Soviet Union has achieved parity with the United States in nuclear strength in the 1970's, the Soviet Union continuously emphasizes that it does not seek superiority. In 1981, Brezhnev said at the 26th National Congress of the CPSU: "Trying to overtake the other party in the arms race, or hoping to be victorious in a nuclear war, is a dangerous madness." After Gorbachev came to power in 1985, he also said words to the effect that there cannot be any victor in a nuclear war. He is deeply concerned about the serious economic problems of the Soviet Union, and to change that situation he has to reform. That again requires reducing the burden of military expenditure and stability in the international environment. For this reason, the Soviet Union is now emphatically urging reduction in nuclear armament and proposing relaxation in the nuclear arms race.

Many Americans suspect that the Soviet Union is making preparations for nuclear war. It is true that many articles published in the Soviet Union on nuclear strategy speak of the Soviet Union being able to fight a nuclear war and that it has to emerge victorious. For instance, Field Marshal Sokolovsky's book "Military Strategy" contains discussions on fighting nuclear war. I, however, regard this as nothing to be alarmed about. Those who discuss nuclear strategy in the Soviet Union are military men and not civilian writers. Apart from the highest leadership in party and government, no one will ever intrude into that territory, since no one else understands military matters, and because nuclear strategy is regarded as a forbidden zone. Since only military men will talk about nuclear strategy, they will of course study how to fight nuclear war because that is their professional responsibility. In the United States things are different. In the United States, civilian writers took the lead in discussing nuclear strategy. In the beginning, military men did not touch the subject. The secretary of defense at that time, McNamara, was a nonmilitary person. He worked out his nuclear strategy based on

studies by researchers of the Rand Corporation. Nuclear strategy is also being studied at many American universities and research units. The United States has always had the tradition that civilian writers discuss military subjects, and it has been only most recently that military men pay more attention to strategy. If one says that the Soviet Union makes preparations for nuclear war, hasn't the U.S. Department of Defense also compiled the nuclear war plan SIOP? There is no country in the world where the defense departments do not give attention to the matter of waging war, because that is their professional responsibility. As to the actual decision to launch war, that has to be decided by the highest authority of the land.

#### 4. Nuclear Policy of Medium Nuclear Countries

Medium nuclear countries are some countries whose overall strength is of medium rank and who possess nuclear weapons. Their nuclear power is very small, we may say, for instance, only one-tenth or one-twentieth of that of the nuclear strength of the superpowers, but they too have a deterrent effect. Their difference is that nuclear strength of medium nuclear countries is evidently of the nature of self-defense, and not of any coercive nature. Due to the great disparity in strength, they cannot launch any nuclear first strike against a nuclear superpower. If they would do that, they would themselves be completely destroyed.

Medium-size nuclear countries will have only limited numbers of nuclear weapons, which they will conceal and protect in various ways, so as not to be wiped out completely all at once if a superpower would launch a nuclear attack against them. If they could in such a case preserve a few score, or even only 10-odd units of their nuclear weapons, they could use these surviving units for retaliation. Though that would not be sufficient to destroy the enemy, however, having these remaining units explode in large cities could cause considerable damage. In spite of limited numbers and unsatisfactory accuracy of aim (after all they will not be used to hit hardened underground silos, therefore need not be very accurate), these weapons could therefore still have quite a deterrent effect. Especially in the present state of confrontation, neither of the two superpowers could afford to use up a large part of its nuclear arsenal in action against a medium-size nuclear country and thereby weaken its position vis-a-vis its main adversary. In a situation like this, the deterrent effect exercised by a medium-size nuclear country is greatly increased.

The term "medium-size nuclear country" refers specifically to Great Britain, France, and China. Let us first discuss the problem of Great Britain and France. Both are members of NATO, and are allied militarily with the United States against the Soviet Union, but both countries do not want to rely completely on the protective nuclear umbrella of the United States, but want to have their own independent nuclear strength. The reasons for

Great Britain wanting to do so are: First, nuclear weapons will enhance Britain's political and military status; Second, they have doubts about the reliability of the U.S. protective nuclear umbrella. Should the Soviet Union one day attack with superior conventional forces, it is not certain that the United States will counterattack with nuclear weapons and risk its own destruction. U.S. forces will sooner or later withdraw from Western Europe, and in that case possession of some nuclear armament will after all be some assurance of its own security. Great Britain's nuclear armament consists mainly of ballistic missiles (bought from the United States) to be launched from nuclear submarines. They are of good survivability. France is even less trusting of the United States. Although it is still a member of NATO, France has withdrawn from its unified military organization and maintains a certain independence. It feels that relying on the U.S. protective nuclear umbrella may lead to a dependency also in political matters. A relationship of this kind will easily render Western Europe subject to the influences from the U.S.-Soviet relationship. If nuclear war should break out between the United States and the Soviet Union, even about non-European issues, Europe may then also be dragged into the conflict. France, therefore, allocates every year about one-third of its own military budget to nuclear weapons. Its nuclear arsenal comprises land-based medium-range missiles, submarine-based missiles, and nuclear bombers, all self-developed and self-produced.

In the U.S.-Soviet discussions on medium-range missiles, the Soviet Union first insisted that Britain and France also abolish their medium-range missiles, as the Soviet Union would otherwise keep a corresponding number of these weapons. But because Britain and France asserted the independent nature of their medium-range missiles, the Soviets finally agreed to leave out their nuclear weapons from U.S.-Soviet negotiations.

Although Britain and France are members of NATO, I believe it is not possible to regard their nuclear weapons as on the same level as Soviet nuclear weapons. First, British and French medium-range missiles are few in numbers and of poor quality, in the foreseeable future their power cannot compare with that of the Soviet Union; any reductions should first of all be a U.S.-Soviet affair. Second, British and French nuclear strength is of a defensive nature, at any rate, it is unthinkable that they would use nuclear weapons for a first-strike attack against the Soviet Union, and thereby bring about their own total destruction. Only in the event of a Soviet attack on Western Europe, could there arise the possibility that Britain and France would use nuclear weapons. It is therefore appropriate to keep the question of British and French nuclear weapons apart from the U.S.-Soviet nuclear arms race.

#### 5. China's Nuclear Weapons

China too has a very small nuclear capacity, built up in 30 years of hard work for the purpose of breaking the

nuclear monopoly and nuclear blackmail of the superpowers, to protect its own independence and security, and to protect world peace. On this subject, I shall remark briefly, purely from my own personal understanding of the matter.

China's nuclear strength is in some ways similar to that of Britain and France. First, in all cases it is of a defensive nature, and without aggressive motives; Second, their arsenals are of limited numbers and of poor quality—in the case of China, perhaps, of even worse quality.

However, there are also differences in China's nuclear strength.

1) Britain and France are members of NATO. If attacked by the Soviet Union, their nuclear strength could be added to the nuclear strength of the United States. China's foreign policy, on the other hand, is one of independence and self-determination, it opposes hegemonism, and has not joined any military alliances; it would have to rely completely on itself if war should come.

2) China was the first country in the world to proclaim that it would not be the first to use nuclear weapons, but Britain and France are reluctant to make a similar statement. They want to reserve the right to be the first to use nuclear weapons if they find themselves incapable of stopping an attack by Soviet conventional forces. The reason for China's proclamation was not only that China does not want to initiate a nuclear war, but also that China with its vast territory and numerous military personnel is not to that extent afraid of an attack by conventional forces.

3) NATO is continuously working on arms expansion and war preparations, while British and French nuclear arsenals are also gradually being enlarged and modernized. China's policy, on the other hand, is one of disarmament. It has reduced its army by 1 million men and converted its war industry to produce for civilian uses. For instance, the nuclear industry has shifted its main emphasis from nuclear weapons to nuclear energy and peaceful uses. The missile industry has shifted its main emphasis from missiles to spaceflight requirements. That does not mean that no work is done in the field of nuclear weapons, only that the emphasis has been shifted, as proven by the very few nuclear tests carried out by China in recent years.

Although China's nuclear strategy may be said to be a kind of deterrent, it deters intimidation by hegemonism. By itself, it has no coercive nature, and may therefore also be said to be an anti-deterrent.

China's nuclear strength is limited. Although the enemy may not find its retaliation "unbearable," as the superpowers would say, it is still capable of inflicting considerable damage.



As to China's limited nuclear strength, there is, from the enemy's point of view, uncertainty. That means, even if a first strike is carried out, the attack cannot with certainty destroy all of China's nuclear weapons. Even if an antimissile system (not yet worked out) were set up, it could not assure interception of all incoming warheads, apart from the fact that setting up a comprehensive antimissile system could not be achieved within a short time. If some warheads would get through, it would be a catastrophe from the enemy's point of view. As the effects of an attack are hard to foretell and may evoke serious consequences, the decision to attack would be a very difficult one.

The situation of U.S.-Soviet nuclear confrontation with parity of strength is more beneficial for China than for Britain and France, because China, being so large and not urbanized to the same extent, would be difficult to subdue even with the expenditure of great effort. But the more strength would have to be expended, the more it would affect the parity between the superpowers, so that the role that China's limited nuclear strength would play in such an event would become increasingly evident.

#### 6. Is There a Possibility of Nuclear War?

Any talk of nuclear war means nuclear war between the United States and the Soviet Union; nuclear war between other countries is out of the question. Nuclear deterrence played an important role for not having had major wars since World War II, some 40-odd years ago, because people were afraid that conventional war would lead to nuclear war. How long can the "balance of terror" of U.S.-Soviet nuclear strength be maintained? People feel as if under a sword of Damocles suspended by a thin thread, in constant fear lest the sword may drop. People suppose there are three possibilities for nuclear war to break out:

1) By a preemptive nuclear first strike by one of the superpowers which would essentially destroy the strategic weapons of the other power. This is actually not possible. In 1982, the U.S. President entrusted General Scowcroft with the organization of a special committee to study U.S. strategic weapons. The committee concluded that the triad strategic force has survivability and will not to a large extent be destroyed by a Soviet first strike. For the same reason, it will not be possible for the United States to launch a successful first strike against the Soviet Union. Some say, since the Soviet Union has more strategic weapons than the United States, it follows that after the first strike of the Soviet Union, if followed by a U.S. retaliation as second strike, the Soviet Union will still be able to launch a third strike that will destroy the United States. As a result, the United States may possibly for that reason not dare launch the second strike, so that the Soviet Union will come out victorious. There is very little likelihood that this will happen, because how would the Soviet Union be certain that the United States would not dare retaliate, leaving the Soviet Union thus inclined to rashly launch an attack?

2) By the escalation of conventional war into nuclear war; small-scale nuclear exchanges could escalate into large-scale nuclear war. Let us first talk about conventional war. Conventional wars between small countries, especially those of the Third World, occur year in year out, but they are not sufficiently relevant to lead to a U.S.-Soviet war. In Europe and Northeast Asia, the two sides, the United States and the Soviet Union (including the various countries of Europe and Japan), have large forces facing each other. Especially Western Europe is an important U.S. defense base, and NATO may possibly first use nuclear weapons to deter the Warsaw Pact. If war erupts here, both sides will hardly be able to gain a victory, but will rather both suffer defeat and severe losses. In Northeast Asia, the military forces of the two sides are not as concentrated as in Europe. The Soviet Union has long and unreliable lines of logistic support and will find it difficult to support large-scale military action. There is also little likelihood that the United States will attack here, because the area is too far away from the vital areas of the Soviet Union. In other areas there is also very little possibility of a direct clash between the United States and the Soviet Union. Both sides treat each other most cautiously to avoid any armed clash. If one side takes a stiff attitude because an issue touches on its vital interests, the other side will yield to avoid a worsening of the situation. The Cuban crisis, mentioned earlier, was an instance of this nature. The United States and the Soviet Union are making every effort to avoid hostilities for fear they may escalate into nuclear war. There is also little likelihood of small-scale nuclear exchanges, because both sides know, once the nuclear threshold is crossed, there could be escalation and no way to retreat, it is therefore a threshold that will not easily be crossed. Although both sides have made plans for nuclear war, these were made merely as a military responsibility and to add credibility to nuclear deterrence. Really starting a nuclear war would be quite a different matter. Recently, both sides, but particularly the United States, have paid much attention to crisis management, which means, to make every effort to avoid having a crisis escalate into nuclear war. Both sides realize that there must be no war.

3) Nuclear war could occur through accident or accidental mistake. People have in the past worried that errors in the computer or the communications, command, or control systems, mistakes in the radar equipment, or human error, or even unauthorized operation by those in charge could possibly result in an erroneous launching of nuclear weapons. In fact, such error has indeed happened, but has never in the past resulted in accidents, because control of the weapons system is very complicated, a partial error cannot activate the whole system. For many years, out of fear of accidents, several security measures have been gradually installed, and are being continuously improved, at all critical points of the system. Erroneous launching of ballistic missiles is therefore practically impossible. Besides, bombers that may have been dispatched, can always be called back, and guided missiles can be ordered to self-destruct, which all increases the safety factor.

The above shows that none of these possibilities can become reality.

Although the United States and the Soviet Union continuously prepare for war, and in many areas continuously struggle for hegemony, it is also in the area of nuclear armament that they continuously compete, each trying to prevail over the other. On the other hand, both sides know clearly that since neither side will be able to overpower the other side, there have to be some restraint, so as to avoid bringing on the calamity of war. Currently, the term "stability" is frequently used in writings, speeches, and discussions. In its most important sense, it is stability in the international situation, i.e., not allowing strained situations to escalate, rather to have them de-escalate. Looking at the arms reduction talks, we see that past agreements stipulate quantitative limitations for strategic attack weapons. Although there were no reductions, both sides have set bottom figures and cannot get reckless in the competition, and create a situation from which retreat would not be possible. The current nuclear disarmament talks want to reduce the quantity of nuclear arms even further, trying to bring even greater stability to the situation, even introduce the issue of stability into the area of arms equipment, because some weapons will easily lead to sharper competition or could give one party the idea that a preemptory attack might be advantageous. For instance, multiple independently targeted intercontinental ballistic missiles are said by some to be a destabilizing factor. If each has 10 highly reliable warheads, it is of course a powerful attack weapon but may also induce the other party to risk a preemptory attack, because each warhead alone could knock out the 10 warheads of the other side. Even if the missiles would be hidden in solid underground silos it would not help matters, because modern missiles are accurate to the extent of hitting underground silos. For its 10-warhead MX missiles, the United States envisages a plan to have them motorized, i.e., to construct 20 or more surface emplacements for each MX or roads between them, and allowing the missiles to always move about between the emplacements, thus confusing the incoming warheads. However, because the system is too complicated and its price too high, the project cannot be carried out. As a result, the MX missiles are still placed into underground silos. At present, the United States is developing a small single-warhead "midgetman" missile which can be moved about on the surface on mobile launchers. One enemy warhead could then hit only one U.S. warhead, and it would, furthermore, be difficult to accurately aim at this kind of a target. It was regarded as a secure weapon by the above-mentioned Scowcroft Committee and is being developed on a large scale. The Soviets are making similar missiles, and seem to be faster than the United States in manufacturing them. Antimissile weapons are also regarded as insecure because if they are not fully effective in intercepting warheads they may, on the contrary, encourage the other side to increase attack weapons to counteract their functions.

In the United States, some people have put forth a strategic theory of "minimum deterrence," which means that since the United States and the Soviet Union have nuclear weapons to the extent of an "overkill," i.e., they can destroy each other several times over, there is really no necessity for this quantity of nuclear weapons. If numbers are reduced to a quantity which still enables a strike to an extent which is unbearable to the other side (some say 200 warheads are sufficient), and if good care is taken in safely storing the weapons, then these weapons may be reduced, while at the same time still maintaining their deterrent function. This is therefore a secure plan. The problem with it is whether both sides will act on it and what quantities they will consider "sufficient." In public statements recently, the Soviets officially talked about the problem of sufficiency and also agreed that "overkill" is not a good thing.

The international situation now tends toward relaxation and disarmament. The United States and the Soviet Union have signed a treaty for the elimination of medium-range missiles, and there may gradually also be some progress in the negotiations for a 50 percent reduction of strategic attack weapons and for the limitation of strategic defensive weapons. It is possible to reduce nuclear weapons, but before there is any change in the U.S.-Soviet confrontation and their struggle for hegemony, it will not be possible to completely eliminate all nuclear weapons. Because of the existence of the deterrence, nuclear wars will not be fought in the foreseeable future. However, since war is still one of the means of resolving conflicts, and since nuclear weapons still exist, it is not possible to rule out altogether the danger of nuclear war.

Will it be possible to eliminate the danger of war after all? Only if the countries that think of launching war will clearly realize that war can only create losses and bring no benefits, will they cease starting wars. The reason why imperialism wanted to stage wars was that they wanted to grab territory, plunder resources, monopolize markets, practice exploitation by using slave labor, to accumulate capital for themselves. Under present conditions of modernization, industrialization, and market economy, occupation of more territory is not only not profitable, but on the contrary rather a burden. In modern production, there is an increasing proportion of technology and less need for raw materials. That is why raw material prices are continuously declining on world markets; they can easily be bought. Through multinational corporations, capitalists can now find suitable manpower and profitable markets. To occupy a market depends mainly on the compatibility of the product, and this again depends on excellent technology and efficient management. As to manpower, it is no more merely a matter of low wages, workers must also have a certain educational level and skills, as it will otherwise be impossible to produce competitive products. Problems of this kind cannot be solved by occupying territory. Under these new conditions, under the high tide of worldwide anticolonialism, the old-fashioned colonialist countries got rid of their colonies, which lightened their

burdens. Of course, for some backward countries it still seems to make some sense to conquer territory and resources, that is why localized wars are still going on.

Wars between capitalist countries have by now also gone out of fashion. Taking Europe as example, how many wars have been fought throughout history between France, Germany, and Great Britain. Now they live together in the European Economic Community, they have huge investment in each other's countries, and there is much economic interchange and mutual interdependence. Apart from the factor of having to face the great enemy, the Soviet Union, in economic respects alone, all these countries, in case of war, would only suffer losses and gain no benefits from a war, because the situation has for a long time already become one of inseparable interdependence. In the case of Japan, the United States, and other large capitalist countries the situation is the same.

At present, the danger of war exists only between the two superpowers, the United States and the Soviet Union. Because of the fundamental difference of ideology and institutions, they are mutually most distrustful and irreconcilable. The Soviet Union has all along depended on its own strength for its construction, it is a comparatively closed country. Now they also realize that closing the

door will not work; the more they tried over many years to catch up and overtake the capitalist countries, the larger the gap became. They now realize clearly that they must carry out reforms in their political structure and also economically, must open up, must import foreign capital and technologies, must participate more in the international market, must institute international exchanges, and for all this they must have a peaceful international environment. So they finally set forth the "new way of thinking" in their diplomacy. Gorbachev has often mentioned the principle of the world's mutual interdependence. I believe in the sincerity of the Soviet attitude, otherwise they could not carry out their reform, and their national strength would only decline further. If they will be successful in their reform, the situation between the Soviet Union and the West would also gradually become one of mutual intermingling of interests. In this way, relaxation between the United States and the Soviet Union would continue in a stable manner, and war would become more and more impossible.

The Danish physicist Niels Bohr once, in 1950, wrote in an open letter to the United Nations that an open world is the prerequisite to peace. Perhaps his ideal will finally become reality.

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## NATIONAL AFFAIRS, POLICY

**JINGJI YANJIU on Distribution in Enterprises**  
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[Article by Li Hongxing (2621 4767 2502), of the Xinzhou Prefecture Administrative Office in Shanxi Province, written in December 1987: "The Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism— Explorations by Xinzhou Prefecture in Shanxi Province in Reforming the Distribution System Within Enterprises"]

[Text] Xinzhou Prefecture in Shanxi Province has, at the same time as implementing the industrial and commercial enterprise contracted operation responsibility system, centered on the enlivening of enterprises and actively explored new avenues for reforming the distribution system within enterprises. Thereby, many previously unheard-of specific distribution forms have appeared. According to incomplete statistics, the wage forms which have been selected by enterprises throughout the prefecture total at least 20. If we look at these numerous and complex concrete forms we can see a characteristic with an innate pattern: The internal distribution of enterprises is more closely linked with commodity exchange outside the enterprise, and is combined more tightly with staff and workers' labor. The market mechanism is slowly entering the area of enterprise internal distribution and is influencing the interests of every staff member and worker. Put in a nutshell, this involves the adjustment of distribution within enterprises under a simulated commodity economy mechanism.

### I. The Major Characteristics of the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism

The adjustment of distribution within enterprises under a simulated commodity economy mechanism involves the establishment within enterprises of a commodity economy mechanism similar to that within the scope of society, and carrying out distribution within the enterprises through accepting the guidance of information obtained from commodity exchange in society. In Xinzhou Prefecture, about one-third of industrial enterprises are now carrying out experiments in this respect. The specific forms are numerous and diverse but, in summary, they have the following three common characteristics:

1. Reducing the size of the accounting units to provide conditions whereby the enterprise can truly judge the benefits of the different types of labor. Those types of labor which, functionally and specifically, are similar to each other can generally be placed under one accounting unit. At present, the accounting units within these enterprises in Xinzhou Prefecture are generally of five types: 1) Units which have the calculation of product value as

their main assessment, such as production workshops. 2) Units which have the calculation of fund-use efficiency as their main assessment, such as supply and marketing sections. 3) Units which have the calculation of the amounts economized in expenditure as their main assessment, such as a factory office or car fleets. 4) Units which have the calculation of the efficiency of investment as their main assessment, such as technological sections and new product research offices. 5) Units which have the calculation of income and expenditure differentials as their main assessment, such as canteens, medical stations, and nurseries.

These accounting units which have been reduced in size achieve, over a quite small range, the unity of rights, responsibilities, and interests. In general all the production workshops have the power to use fixed assets and floating funds and to allocate personnel in that unit, and a certain operational power and power over wages and the allocation of bonuses. Thus they can be seen as relatively independent operational entities. The functional departments and offices outside the production workshops and the reserve units also have relatively independent rights, responsibilities, and interests, and on the precondition of completing their tasks they can have funds contracts and seek their own balances. This results in the natural production units within the factories gaining the position of "economic legal entities" and this prepares them for entering the "market within the factory." In another respect each reduced accounting unit represents a type of natural-form labor. Their scale is not equal and the type is determined through the characteristics of the labor. This facilitates the assessment of the value created by the various types of natural-form labor. For example, the Xinzhou City Porcelain Factory divided its nine workshops into nine accounting units on the basis of the different technologies each engaged in. Then it divided the 0.22 yuan target cost for a standard porcelain article between the various work processes and gave these targets to the accounting units. The mechanized wheel [ji lun 2623 6544] workshop had to produce a blank for 0.082 yuan; the rolling workshop would increase the cost to 0.09 yuan; the semi-finished product coming out of the furnace would cost 0.163 yuan; while the finished product emerging from the enameling furnace would cost 0.22 yuan. These target costs eliminate the transferred portion of materialized labor. That is, they are the value created by the live labor, after social deductions, put in by the workers to produce these products.

2. The establishment of an internal pricing system and internal account-settling organization provides implementation measures for the adjustment of internal distribution. Because money acts as a universal equivalent in socioeconomic activities, and guarantees the smooth carrying out of exchange, within enterprises, if distribution is to be adjusted through a simulated commodity economy mechanism, there need to be general internal prices and a "universal equivalent"— factory money. The enterprises in Xinzhou which are exploring the

reform of the distribution system have generally stipulated internal prices. On the basis of the previous year's product sales, and the current year's orders and the price of raw and semi-finished materials, and on the basis of the profits and taxes to be delivered, the enterprises forecast and set down target costs for semi-finished and finished products within the enterprise. That is, they set down internal exchange prices. As these internal prices do not extend outside the enterprise and there is generally only one supplying unit for the semi-finished products at each link of circulation, there is no horizontal competition. There is only vertical product price comparison. Some enterprises are not subject to the influence of market price fluctuations outside the enterprise for quite sometime and they can maintain relatively stable internal prices. Providing a fairly stable environment for production units is conducive to assessing their labor achievements. For example, the internal prices of the prefectural textile mill and the Dingxiang Phosphate Fertilizer Factory remain unchanged for a year after they are set, and the factory department acts as a reservoir playing a regulatory role in balancing the internal and external conditions. There are also some enterprises which readjust internal prices following changes in the market. For example, the Dingxiang Linen Factory readjusts its prices on a monthly or quarterly basis in accordance with the price rise indices for the major raw materials.

At the same time as fixing internal prices enterprises have established internal account-settling organizations, and some have established banks within the enterprises. All of the accounting units open accounts in the factory bank and store the funds which the factory departments have determined they can use. Then, in accordance with the flow of goods between production links, the bank within the enterprise will carry out appropriate value settlements. In carrying out the account settling, some use internal checks while others use certificates representing money. In this way the value of the semi-finished and finished products in the various production units within the enterprise can, in the exchanges, be assessed through internal prices. As product value is formed through the transfer of materialized labor and live labor, the value created by the various accounting units' labor can be assessed through exchanges within the factory, and the total amount of wages (including bonuses) of an accounting unit is the value created by the laborers in that unit (with the social deductions calculated beforehand). Thus, the different types of labor within an enterprise are all changed into fixed quantities through internal pricing forms, and the enterprise can adjust distribution in accordance with the labor quantities determined by the prices.

3. The linkage of the total amount of wages and bonuses with product value ensures that the regulatory function of market mechanism extends to individuals. After enterprises reduce the size of accounting units and implement internal prices, the labor achievements of the various accounting units all have a value form, which

thereby constitutes the value of the total products of the enterprise. This value is manifested through the various target costs of products within the enterprise. The enterprises then link up the total amount of wages and bonuses with product value and separately calculate the production tasks and target cost goals for the various accounting units. The various accounting units then engage in contracted operations and take sole responsibility for their profits and losses. Target costs contain a fixed wage amount and if costs increase it means that wages decrease. Any decrease in costs are seen as workshop profits and through the form of bonuses these are linked with staff and workers' income. Here there are two situations. The first is that the entire amount is retained for use. For example, the Xinzhou City Porcelain Factory divided the 0.22 yuan target cost for each standard item among the various accounting units. Then, on the precondition that the production tasks are completed, that amount which is below the target cost is given over entirely to the accounting units for bonuses. Any part which exceeds the target cost is deducted from basic wages. The second is that there is proportional retention. The Dingxiang Linen Factory gives 50 percent of any reduction in costs to the accounting unit for distribution, while for any amount in excess of target costs, 50 percent of that amount is deducted from the total amount of basic wages. In this way, the total amount of wages and bonuses is linked with product value. It is thus clear at a glance that regardless of whether economizing is done in the area of materialized labor or live labor, in both cases it will be manifested in terms of wages and bonuses.

This "linkage" relationship between the factory department and the accounting units is reflected in terms of the staff and workers through the following three remuneration forms:

1. Piecework wages. This is suitable for posts where the division of work is clear, the production linkage relationship is not tight and in a single link it is possible to independently produce a finished product. For semi-finished and finished products which an individual is able to produce, individual piece-rate wages are implemented, while for those semi-finished and finished products which require many people to produce, collective piece-rate wages are implemented. For example, in the piece-rate wage system for the workers in the major production posts of the four large workshops in the prefectural textile mill, the calculation method is: individual (collective) wages equal production volume times unit value times quality fulfillment rate. This method pays attention to both output volume and to quality, and unifies individual and collective income with enterprise and state benefits.

2. Fixed wages. One form is that for products where it is not conducive to use piece-rate wages, it is set down that the completion of a certain amount of work will constitute a standard work hour, and there is a rational receipt of remuneration based on the number of standard work

hours completed. In units which cannot independently produce "products", wages and bonuses are received in accordance with how well the overall enterprise quotas are completed. For example, the die group of the machine repair workshop in the prefectural glass factory receives 12 yuan in bonus for each ton of bottles it can guarantee the entire factory produces above the target. Another type is where a team, group, or individual completes, in a way which meets the standards, a piece of work, an intermediate product, or a certain quantity of products. Wages are then calculated on a piece-rate or graduated calculation basis. For example, in the mechanized wheel workshop of the Xinzhou Porcelain Factory the production of 580 bowls per work hour is set as the quota. In the completion of this quota, each bowl blank produced means 0.0072 yuan in wages. For production above the quota figure, each bowl blank is worth 0.01 yuan in wages. If the quota is not completed, 0.02 yuan is deducted for each bowl by which production is short of the quota. The advantage of this method is that it can guarantee the completion of the basic production tasks and at the same time can encourage production above the quota.

3. Percentage-system wages. All those areas which cannot adopt piece-rate or other wage forms, adopt the method of setting a percentage in determining wage levels. As the total number of targets is 100, it is called the percentage system. The concrete method is that the various work targets are broken down and divided and in accordance with scientific budgeting, the percentage which should go to each is determined. Then, in accordance with the total figure, the amount of wages is determined.

The above three methods are used in an overlapping way in the same enterprise, and in some accounting units two or even three forms coexist and complement each other. All enterprises pay special attention to quality management and, regardless of which remuneration form is employed, they have quality inspection systems. Through a percentage system, several major quality targets are allocated to the various sections and afterwards, on the basis of the quality achieved, a quality coefficient is worked out for each section. The due wages and bonuses are then multiplied by the quality coefficient to determine the actual income. In this way, under this system whereby requirements and output are "linked," staff and workers can obtain their full remuneration only through satisfying quality requirements.

## **II. The Origins and Inevitability of the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism**

1. This form is a requirement in developing the productive forces and improving economic efficiency subsequent to implementation of the contract system. The occurrence of exploring the distribution adjustment within enterprises under a simulated commodity economy mechanism was a direct result of the task of

developing enterprises' productive forces and improving economic efficiency subsequent to implementation of the contract system. After enterprise operators obtained relative independence in taking decisions the major question they faced was how to motivate the enthusiasm of the whole body of workers in developing the productive forces and improving economic efficiency. In this way, active exploration of distribution system reform became a logical extension and development of the contract system within enterprises. The adjustment of distribution within enterprises under a simulated commodity economy mechanism draws the law of value and the market mechanism into the area of enterprises' internal distribution, and has the function of rewarding the industrious and penalizing the lazy, and rewarding the superior and penalizing the inferior, through their material interests. It is able to effectively motivate the enthusiasm of the staff and workers, reduce material consumption, improve product quality and thereby improve the economic benefits of enterprises. This is the major reason why many enterprises have spontaneously selected the "simulation" form.

2. This form is an objective demand put to enterprises by the commodity exchange relationships within the scope of society. Under socialist commodity economy conditions enterprises become relatively independent commodity producers and operators, and the commodities produced by enterprises must be exchanged through the market. Only thus can the products realize their value and guarantee the enterprises' production is carried out on a new base. Only if enterprises' internal distribution has the information provided by market exchange and only if, in the degree of value realized by the products in exchange, coordination and an equal pace are maintained, will it be possible for the enterprises to continue to exist for any length of time. In this way enterprises' production will be tightly linked with the market, and any change in the market will be quickly reflected in the enterprise and have an effect on enterprises. If an enterprise is subject to market guidance its products will have good sales in the market, the prices will be high, and the profits of the enterprise will thus be high. The enterprise will not change its internal distribution and the income of the staff and workers will not change. This will result in "lag deviation" and will dampen the enthusiasm of the staff and workers and affect production. If the enterprise's products do not sell well, the price is low and thus the enterprise makes small profits or even losses. This will result in "advance deviation" and the enterprise will be trying to cook a meal without rice. It will thus be difficult for it to continue. Therefore, having a simulated commodity economy mechanism in enterprises and using this to adjust internal distribution in accordance with the external market exchange situation has become unavoidable.

3. The market's direct examination and assessment of commodities provides an objective basis on which to assess and calculate the value of the labor of individuals within enterprises. At present, over 80 percent of the

products of the industrial enterprises in Xinzhou Prefecture rely on self-marketing. It is necessary to go to the market, face the consumers, and directly receive the consumers' assessments and judgements. In such a situation, the labor expenditure by the producers within an enterprise cannot directly, in terms of the length of labor time, prove social effectiveness. This must be assessed through the unified yardstick of market exchange—the market price. No one can arbitrarily assess how much value is created by individual labor within enterprises or how much social labor is condensed in a product. These things are assessed by the authority which is constituted by the market. With this yardstick, enterprises can draw the value categories within and quite accurately assess and calculate the value created by the labor of each section. Thereby, distribution can be adjusted in accordance with value and those workers whose labor contribution is greater will get more, while those whose labor contribution is lesser will get less.

4. After the enterprises implemented the contracts they became relatively independent commodity producers and operators, and had the function of direct distribution. This meant that the adjustment of distribution within enterprises under a simulated commodity economy mechanism became a possibility. Enterprises which have implemented contracted operations have the right to determine appropriate wage forms and distribution modes, and the right to increase the wages of staff and workers with funds obtained through legitimate channels. As long as these methods are beneficial to motivating staff and workers' enthusiasm and to developing production, the enterprises can choose which form to adopt. The diverse internal wage forms which have appeared in Xinzhou enterprises are all products of enterprises' direct distribution function.

### III. Several Thoughts on the Adjustment of Distribution Within Enterprises Under a Simulated Commodity Economy Mechanism

Although the readjustment of distribution within enterprises under a simulated commodity economy mechanism which is being implemented in Xinzhou Prefecture is but an exploration which requires further testing through practice and further development and improvement, its creative characteristic clearly has its own vigor.

1. The "simulation" form combines labor distribution and exchange at equal value, meaning that it has the characteristic of implementing distribution according to labor under socialist commodity economy conditions. The labor of individual workers must be assessed not just in terms of labor time, but more importantly in terms of the socially effective labor provided by the worker. This effective labor must be indirectly proven through exchange, drawing support from value categories. Regardless of the amount of individual concrete labor provided by a worker, only that part which is consumed in the product and which through internal exchange becomes the enterprise's average necessary labor will be

a basis for the enterprise's distribution. Thus, not only will the enterprise's production operation situation and the size of the social contribution be judged, but the labor actually contributed by staff members and workers will also be determined. In this way there will be an objective basis for distribution according to labor, and it will be possible to effectively guard against egalitarianism concealed by distribution according to labor time.

2. The "simulation" form combines distribution and management and effectively improves the level of enterprises' internal management. It draws the law of value and market mechanism into the enterprise and establishes at the management levels within the enterprise, an automatically adjusting and benign mechanism which rewards the diligent and penalizes the lazy, and which rewards the superior and penalizes the inferior. Thus from the distribution angle, management has been raised to a new level. First, workers' labor and remuneration has been tightly linked and the individual labor of workers and the overall labor of the enterprise are organically combined in terms of material interests. Everyone is a laborer and also a manager. One manages oneself and the enterprise managers then do not have to worry about how best to manage the workers. Second, the workshops and groups within the enterprise have, through the combining of responsibilities, rights, and interests become vital organisms, truly taking responsibility, adopting flexible forms to achieve the best arrangement of laborers and the means of production, and reducing costs and improving economic efficiency. The weaving workshops of the Xinzhou Prefecture Textile Mill have a 10 to 15 percent reserve staff. Previously, this was never enough, because the machines did not have enough people to run them and it was necessary to organize some people to work overtime. Now, the workshops and the work group heads make painstaking arrangements, staff and workers now do their errands after work, and those with minor illnesses do not take time off. There is usually a surplus of reserve workers and this guarantees full production by the machines. Third, as value categories have been drawn into the enterprises, everybody stresses accounting and the calculation of costs, and the quality of management has swiftly improved. The head of one weaving workshop in the prefectural textile mill is an old worker with a primary school education. Before, he did not understand what costs and profits were. He only knew how to lead the workers in doing what the factory department had arranged. After reducing of the size of accounting units, and the implementation of the adjustment of distribution within enterprises under a simulated commodity economy mechanism, because the workshop's costs went up, 20 percent was deducted from the monthly wages of the staff and workers. Thus, the head knew he could not continue to do things like he had done in the past and he registered to participate in a middle-level cadre management training course run by the factory department. He also managed to find time to do some study in the finance section. Now he is just like a little entrepreneur. Fourth, because everyone at every level has a sense of

responsibility, the factory managers have been freed from many of the worries of work. Thus, it is possible for them to centralize their energy in enterprise decision-making.

3. The "simulation" form unifies enterprise targets and the targets of staff and workers and creates a new situation where workers feel "if the factory is prosperous, I am proud, whereas if the factory is weak, I am ashamed." It has established a distribution mechanism which coordinates individual and enterprise interests. Enterprise development goals contain benefit targets for individual staff and workers. Individual and enterprise interests are melded together and the rise or fall of the enterprise has an immediate effect on the benefits of the staff and workers. Interests are shared and risks are borne together. This motivates the enthusiasm of the staff and workers and increases enterprises' cohesiveness and centripetal force. In the past, when the Dingxiang Phosphate Fertilizer Factory experienced power cuts, the staff were not worried and some even rejoiced at the excuse for a rest. Now, when there is a power cut, the workers rush to find the factory manager to demand power. Some even run to the electricity office to make representations, and they do everything possible to guarantee normal production.

4. Under the "simulation" mechanism, the specific remuneration forms are numerous and diverse. Some use one form as the major system and supplement it with another, and some use several overlapping forms which complement each other. However, all have their appropriate aspects and their limitations. This "simulation" is only an experiment in distribution forms within state-owned enterprises. Apart from this form, there may be more and better forms awaiting our exploration. This accords with the diverse nature of the commodity economy. However, regardless of what form, it is suitable if it is of benefit in motivating the enthusiasm of staff and workers and in developing production.

## PROVINCIAL

### 1987 Hunan Socio-Economic Development Statistics

40060255 Changsha HUNAN RIBAO in Chinese  
22 Mar 88 p 2

[Communique by Hunan Provincial Statistical Bureau: "Statistics for 1987 Socio-Economic Development"; dated 14 March 1988]

[Text] In 1987, under the leadership of the provincial CPC committee and the provincial government, the people of various nationalities in Hunan, while focusing their attention on economic development, upheld the four cardinal principles, adhered to the policies of reform and opening up to the outside world, and stepped up the movement to increase production and income and practice economy. As a result, the economy grew steadily, and gratifying results were achieved in various

fields of social development. The 1987 GNP (see note 1) reached 46.483 billion yuan, a 9-percent increase over 1986, and national income came to 40.120 billion yuan, a 9.2-percent increase over 1986. With increased production, both the domestic market and trade with foreign countries continued to grow. Revenues increased, and expenditures were reduced. In both urban and rural areas, the people were making more money and enjoying a better standard of living. New achievements were made in science, technology, culture, education, public health, sports, and other fields of social activities. The major problems in the economy were demand outstripping supply, shortages of some commodities, especially major nonstaple food items, and excessive price rises.

### I. Agriculture

1987 was a fairly good year. The total agricultural output value of Hunan Province (not counting the output of village industries) reached 25.339 billion yuan in 1987, a 3.3-percent increase over 1986.

Of the output of major agricultural products, that of grain dropped a little. Total grain output was 25.937 million tons, a 1.4-percent drop from the previous year caused mainly by a significantly smaller early rice crop as a result of reduced acreage and natural disasters. But bumper harvests of middle-season rice, late rice, tuber crops, and miscellaneous food grains were reaped, particularly late rice which registered a per-mu yield of 394 kg and a total output of 11,631,900 tons, both new records. Industrial crops registered fairly rapid growth. Of the major industrial crops, rapeseed output set another new provincial record. Output of cured tobacco, tea, and citrus fruits went up considerably. However, ramie output went up too much. The 2.89 million mu of land used to grow ramie was 1.6 times the planned acreage, and the total yield far exceeded demand. Output of cotton, jute, ambary hemp, and sugarcane dropped considerably owing to reduced acreage.

The output of major agricultural products was as follows:

	1987 (tons)	Increase over 1986 (percent)
Grain	25,937,000	-1.4
Cotton	55,500	-33.4
Oil-bearing crops	530,600	12.5
of which, rapeseed	429,800	16.8
Ramie	253,000	170
Jute, ambary hemp	11,800	-75.5
Sugarcane	1,230,000	-26.0
Cured tobacco	96,800	5.2
Silkworm cocoons	2,300	-11.5
Tea	79,100	8.2
Fruit	540,700	3.8
of which, citrus	434,800	8.2



Output of major forest products rose considerably. The output of tea-oil seeds was 200,000 tons, an 8.2-percent increase over 1986. The output of tung-oil seeds was 56,100 tons, a 21.9-percent increase over 1986. The total area afforested was larger than in 1986, particularly the areas of fast-growing and economic forests. However, wanton felling of trees still occurred in some places.

Output of major animal products continued to rise. The number of hogs increased again in 1987, after 4 years of continuous growth. The output of pork, beef, and mutton and the number of large animals at year's end were all up over the previous year.

The output of major animal products and livestock headage were as follows:

	1987	Increase over 1986 (percent)
Pork, beef, & mutton	1,638,500 tons	5.1
Hogs slaughtered	28,574,400 head	7.5
Hogs at year's end	26,477,600 head	2.0
Large animals at year's end	3,802,100 head	3.8
of which, draft cattle	3,777,100 head	3.9
Sheep at year's end	633,900 head	9.3

Fishery kept up its high growth rate. The output of aquatic products was 443,800 tons, a 16.3-percent increase over 1986, maintaining a double-digit growth rate for 9 years running. The output of fresh fish was 31,000 tons, a 16.5-percent increase over 1986.

Progress was made in the popularization of agricultural technology. A total of 29,554,100 mu was sown to hybrid rice, a 34.9-percent increase over 1986. Farmland yielding 1 ton of grain per mu rose to 3,198,000 mu, a 56-percent increase over 1986. Soil improvement was carried out on 2,696,600 mu, or 21 percent of the total area, of medium- and low-yield farmland. Progress was also made in the popularization of such techniques as biological control, plastic-sheet-covered cultivation, and application of fertilizers containing only minor or trace elements.

Conditions for agricultural production were improved. By the end of 1987, the aggregate power used by farm machines in the province rose to 10.535 billion watts, a 13.3-percent increase over 1986. There were 43,600 trucks for agricultural purposes, an 18.4-percent increase, and 158,000 small and hand-guided tractors, a 17.6-percent increase. The power used by irrigation and drainage equipment was 3.137 billion watts, a 3-percent increase over 1986. A total of 1,066,000 tons of chemical fertilizers (100

effective composition) was applied, a 5.3-percent increase. However, the number of large and medium-sized tractors decreased by 7.2 percent, and the area of effectively irrigated land decreased by 3.8 percent, from 1986.

Town and township enterprises developed rapidly. By the end of 1987, there were 948,700 town and township enterprises in the province, a 15.4-percent increase; 4,019,300 people were employed, a 12.4-percent increase; and their income totalled 18.583 billion yuan, a 36.9-percent increase over 1986.

Reforms in the countryside continued to develop, and the rural economy was further invigorated. The total social output value in rural areas (see note 2) was 40.774 billion, an 11.8-percent increase over 1986. Of the total, the proportion made up by nonagricultural output increased from 33.9 percent in 1986 to 37.9 percent in 1987, and that by agricultural output decreased from 66.1 percent to 62.1 percent over the same period. Of the total agricultural output value, the proportion made up by forestry, animal husbandry, sideline production, and fishery increased from 41.8 percent in 1986 to 45.4 percent in 1987, and that by crop farming decreased from 58.2 percent to 54.6 percent over the same period.

## II. Industry

Industrial production increased steadily in 1987. The total industrial output value reached 45.674 billion yuan, a 16.9-percent increase over 1986. Excluding the output value of village industries, the total was 40.318 billion yuan, up 14.9 percent from 1986. Industrial production maintained a double-digit growth rate for the 4th consecutive year. The output value of state-owned industries was 29.772 billion yuan, up 13.1 percent from 1986; that of collectively owned industries was 10.334 billion yuan, including 3.983 billion yuan by township industries, up 18.2 percent and 31.5 percent respectively; that of privately owned industries in urban areas was 130 million yuan, up 85.9 percent; that of village industries was 5.356 billion yuan, up 34 percent; and that of other types of industries was 82 million yuan, up 280 percent

Light and heavy industries developed in fairly good proportion. The readjustment of the structure of industrial production began to show results. The 1987 output value of light industry was 21.041 billion yuan, up 17.8 percent from 1986, and that of heavy industry was 24.633 billion yuan, up 16 percent. The ratio of output value between light and heavy industries changed from 45.6:54.4 in 1986 to 46.1:53.9 in 1987. In light industry, the sector using nonagricultural products for raw materials grew by 25.3 percent, faster than the 19.8-percent growth of the sector using agricultural products for raw materials. Production of readily marketable consumer goods, such as color TV sets, household refrigerators, cigarettes, and alcoholic beverages, increased sharply. In heavy industry, the energy industries such as coal and electric power grew steadily, and the output of raw and semifinished materials, such as pig iron, steel, coke, and cement, and products for use in agriculture, such as chemical fertilizers and insecticides, continued to rise. However, the supply of energy and some raw and semifinished materials was still inadequate.

The output of major industrial products was as follows:

	1987	Increase over 1986 (percent)
Cotton yarn	126,900 tons	12.7
Cloth	481,000,000 meters	0.6
Leather	3,630,800 pieces	2.4
Machine-made paper & paper board	538,100 tons	10.6
Sugar	62,900 tons	-24.6
Crude salt	370,700 tons	3.2
Cigarettes	2,386,000 cases	9.9
Ceramics	696,000,000 pieces	21.7
Bicycles	1,648,600	16.9
Sewing machines	157,400	-39.5
TV sets	397,700	53.5
of which, color sets	40,200	38.1
Tape recorders	306,000	120
Household washing machines	25,900	16.5
Household refrigerators	273,200	120
Coal	33,600,800 tons	10.1
Crude oil processing	3,080,400 tons	1.6
Electricity	16,140,000,000 kwh	6.2
of which, hydroelectricity	8,237,000,000 kwh	13.1
Pig iron	1,350,100 tons	0.9
Steel	1,127,200 tons	9.2
Rolled steel	1,045,600 tons	2.9
Sulphuric acid	666,000 tons	14.6
Soda ash	42,200 tons	20.9
Chemical fertilizers (100% effective composi- tion)	1,167,300 tons	13.8
Chemical insecticides	19,300 tons	33.3
Timber	3,004,500 cubic meters	-0.9
Cement	9,670,500 tons	11.6
Plate glass	3,490,300 standard boxes	-9.3
Motor vehicles	2,674	42.2
Small tractors	25,560	21.7
Machine tools	3,051	-37.4

In 1987, the industrial enterprises launched a wide-spread movement to increase production and income and practice economy, and their economic performance took a turn for the better. The per-capita productivity of state-owned independent-accounting industrial enterprises was 15,029 yuan, up 8.8 percent from 1986. The total output value of industrial enterprises included in local budgets increased by 14 percent; their total sales increased by 21.3 percent; their profits and the profits and taxes turned over to the state increased by 10.9 percent and 7.1 percent respectively; and the turnover period for their working funds was shortened by 3 days from the past year. Energy consumption dropped. Industrial enterprises at and above the county level in the province saved 990,000 tons of energy (in terms of standard coal) and 460 million kwh of electricity. Overall product quality was stable and in some cases improved. However, owing to sharply increased prices of raw and semifinished materials and the inability of some

enterprises to absorb these increases, the cost of comparable products rose by 7.1 percent, and the number of losing enterprises and the amount of their losses both went up.

The reform of industrial enterprises accelerated. According to a survey, among the industrial enterprises owned by the whole people at and above the county level, 2,353 adopted the director responsibility system, a 12.6-percent increase over 1986, and their proportion to the total increased from 64.7 percent in 1986 to 74.7 percent in 1987. Among the industrial enterprises included in local budgets, 1,464, or 84 percent, signed management contracts. The number of close and semi-close economic associations made up of industrial enterprises at and above the county level on the basis of voluntary participation and mutual benefit reached 112, involving a total investment of 269 million yuan. The output value and profits of these associations rose by 25.4 percent and 12.3 percent respectively over the previous year, much higher than the average performance level in the province.

### III. Transport, Post, and Telecommunications

The transport industry was strengthened by the reforms. Under contracted management, railway passenger and freight volumes rose sharply. The total volume of water and highway transport also increased. However, owing to the rapid development of individual transport services, the volume handled by the public transport system decreased somewhat.

#### Volumes of passengers and freight handled by various means of public transportation were as follows:

	1987	Increase over 1986 (percent)
Volume of freight	54,457,000,000 ton/km	8.5
Railway	49,113,000,000 ton/km	10.0
Highway	1,017,000,000 ton/km	-1.8
Waterway	4,327,000,000 ton/km	-4.2
Volume of passengers	29,810,000,000 person/km	10.0
Railway	16,349,000,000 person/km	15.4
Highway	12,973,000,000 person/km	4.9
Waterway	488,000,000 person/km	-12.7

The postal and telecommunications services continued to grow. Business transactions by these services totaled 127 million yuan, a 12.3-percent increase over 1986. Of the total, letter mail increased by 7.5 percent; long-distance telephone service increased by 12.1 percent; and telegrams increased by 19.3 percent. The number of telephone users in urban areas at year's totaled 80,300, a 10.5-percent increase over 1986.

### IV. Investment in Fixed Assets and Construction

In 1987, the province firmly implemented the principle of supporting productive or key projects and planned investment while curbing nonproductive or unimportant projects and outside-plan investment. Projects under

construction were carefully reviewed. A number of ordinary processing industries and nonproductive projects were cut back, and priority was given to key projects. Investment in fixed assets totaled 11.542 billion yuan, a 10.3-percent increase over 1986. Of the total, 6.097 billion yuan was invested by state-owned enterprises, up 21 percent; 1.759 billion yuan was invested by collectively owned enterprises in urban and rural areas, up 31.8 percent; and 3.686 billion yuan was made by individuals in urban and rural areas, up 3.8 percent. There was increasing diversification in the use of investment funds.

In their investment in fixed assets, the state-owned enterprises curtailed the scale of capital construction and devoted more funds to equipment renewal and technological transformation. They invested a total of 3.247 billion yuan in capital construction, a 16-percent increase over 1986, which was within the limit set by the annual plan. And a total of 2.544 billion yuan was invested in equipment renewal and technological transformation, up 26.1 percent from 1986, a higher growth rate than for capital construction. In 1987, the number of capital construction projects was reduced by 5 percent, and that of equipment renewal and technological transformation projects increased by 20.4 percent.

The investment structure was further improved. In capital construction for state-owned units, greater emphasis was placed on extension and reconstruction than on new projects. Investment in extension projects totaled 1.169 billion yuan, a 32.1-percent increase over 1986; investment in reconstruction projects totaled 550 million yuan, up 140.3 percent; and investment in new construction projects totaled 1.184 billion yuan, a drop by 13.4 percent. Productive projects grew faster than nonproductive projects. Investment in productive projects totaled 1.974 billion yuan, up 23.9 percent, and investment in nonproductive projects totaled 1.273 billion yuan, up 5.5 percent, from 1986. Of the investment in productive projects, a steadily growing share went to the energy and raw and semifinished materials industries. A total of 845 million yuan was invested in the energy industry, up 40.7 percent, and a total of 315 million yuan was invested in the raw and semifinished materials industry, up 31.8 percent, from 1986. Of the investment for the re-equipment and transformation of state-owned enterprises, a growing amount was devoted to equipment renewal, technological improvement, increasing variety, and upgrading product quality. Investment for purchases of equipment, tools, and appliances increased by 17.7 percent; that for improving product quality increased by 48.3 percent; and that for reducing energy consumption increased by 4.2 percent.

Continued emphasis was placed on key projects. A total of 815 million yuan was invested in 18 key projects, and better progress was made on their construction than the average construction speed in the province. Of the total, 395 million yuan, or 48.5 percent, was invested in six energy projects. Completed or partially completed and

put into operation were: the Hunan artificial board plant, the Tangchong coal pit of the Lianshao Mining Bureau, and the No 1 unit at the Dongjiang hydroelectric power station. Among the key projects under construction, the double-tracking and electrification of the Heng-Guang Railway (Hunan section), the Hengyang Xiangjiang highway bridge, the Changsha Huanghua airport, the Xiangtan City chemical fiber plant, the Hengyang beer brewery, and the provincial college of traditional Chinese medicine No 1 affiliated hospital all fulfilled or overfulfilled the year's plan.

A total of 10.025 billion yuan worth of fixed assets were added in 1987, a 21.3-percent increase over 1986. State-owned enterprises acquired 2.597 billion yuan worth of fixed assets in capital construction and 1.988 billion yuan worth for re-equipment and technological transformation, up 34.3 percent and 42.6 percent respectively over 1986. New production capacities acquired by state-owned units with added fixed assets include: 880,000 tons of coal, 312,800 kw of power generating capacity, 551 km of 110-kv power transmission lines, 1,282,500 tons of cement, 120,000 cases of cigarettes, 21,000 tons of machine-made paper and paper board, 50,000 cubic meters each of plywood and shaving board, and 1.8 million square meters of veneer wood.

Extensive structural reforms were carried out in the building industry. In 1987, the contract responsibility system was applied to 2,551 projects undertaken by local state-owned construction enterprises, accounting for 92.1 percent of the total number of projects under construction. The result was better economic returns. The total output value of the local state-owned building industry was 804 million yuan in 1987, up 16 percent from 1986, and the per-capita productivity was 8,931 yuan, up 17.3 percent.

The geological departments submitted 39 formal geological reports and examined and approved 38 other geological reports, 34 more than requested by the state plan. The state-assigned task of verifying the increased reserves of 11 kinds of minerals in Hunan was completed as planned. In 1987, 25 new mining bases were discovered. Geological survey services earned a total of 65,090,000 yuan, up 1.1 percent from 1986. All major construction projects proceeded according to plans. Fairly good progress was made in expanding the geological market and diversifying geological work.

To serve economic construction, urban planning, and resources surveys, the cartographic departments produced 1,546 topographic maps of various scales, covering 28,300 sq km. A total of 948 maps were published, including 624 specialized maps and public maps. A total of 134,000 work-days of topographic work was done in 1987, about the same as in 1986. The cartographic departments also completed 1,181 km of differential leveling for the state.

### V. Domestic Commerce, Supply and Marketing

Intensifying reforms in the commercial system stimulated commodity circulation, and the market was brisk. The value of retail sales totaled 24.288 billion yuan, an 18.7-percent increase over 1986. In real terms the increase was 7.3 percent. Of the total retail sales, the value of consumer goods was 20.952 billion yuan, an 18.4-percent increase, and of agricultural means of production 3.336 billion yuan, up 20.4 percent. The retail sales of all commodities increased considerably from 1986. Sales in the state-owned sector grew by 20.3 percent; in the collective sector, by 11.1 percent; in the individual sector, by 26.6 percent; and a 31-percent increase was registered in transactions between peasants and nonagricultural people.

Retail sales of all kinds of consumer goods were on the rise. Besides pork, vegetables, sugar, and some other nonstaple foods which were in somewhat short supply, the availability of food was sufficient, and in fact 21.9 percent more than in 1986. Clothes sales increased by 12.4 percent, and other necessities, 16.6 percent.

Continued progress was made in the structural reforms of commerce. In the commerce system, 42 percent of the large enterprises had implemented the manager-responsibility system, and 85.8 percent of the small enterprises were handed over to collectives and collective ownership, leased or sold to individuals, or had adopted some form of contract responsibility system. In the supply and marketing system, 91.1 percent of the grassroots-level enterprises and outlets had installed various forms of responsibility system. Lateral commercial associations grew quickly. By the end of 1987, 176 lateral associations were formed by 442 commercial, catering, and service enterprises. Wholesale and retail enterprises under the commerce department became partners or agents in various forms of joint ventures with 21,000 agricultural, industrial, and commercial enterprises in Hunan and other provinces. Their transactions totaled 2 billion yuan in 1987, accounting for 37.7 percent of the overall business volume of the commerce department system. Units under the supply and marketing system formed joint ventures with 825 town and township enterprises and set up 378 enterprises jointly with peasants. More collectively owned enterprises turned into stock companies. By year's end, 788 collectively owned enterprises, 30.5 percent of the total number of such enterprises, under the jurisdiction of the commerce department became stock companies, and 4.92 million yuan in shares, or 94 percent of the total capital stock, were bought by workers and staff.

The movement to increase production and income and practice economy in the commerce system were bearing fruits. The total sales of state-owned commercial enterprises and supply and marketing cooperatives increased by 20.4 percent, and profits and taxes increased by 25.8 percent. The per capita sales reached 58,941 yuan, a

15.1-percent increase over 1986. The profit per 100 yuan of working funds was 12.62 yuan, up 11.3 percent, and the expenses per 100 yuan in sales were 9.09 yuan, down 2.6 percent.

Control over the capital goods market was further relaxed. The proportion of materials under unified state distribution became smaller. The proportion of rolled steel distributed under state plan dropped from 69.8 percent in 1986 to 53.9 percent in 1987; that of cement, from 45.3 percent to 37.7 percent; and timber was entirely decontrolled. The 1987 purchases of the materials departments totaled 4.199 billion yuan, up 26.8 percent, and sales totaled 4.464 billion yuan, up 25.9 percent, from 1986.

Urban and rural fairs continued to grow. By year's end, there were 3,764 fairs in the province, a 4.7-percent increase over 1986, and their business volume amounted to 5.250 billion yuan, a 34.7-percent increase.

Prices rose considerably. The overall retail price index rose 10.6 percent from 1986. The retail price index rose 11.3 percent in urban areas and 10.2 percent in rural areas. The price of foodstuffs went up 12 percent; of which the price of meat, poultry, and eggs rose 17.2 percent; fresh vegetables, 30.8 percent; and aquatic products, 13.8 percent. The cost of clothes rose by 5.3 percent; household goods, 9.3 percent; medicine and medical apparatus, 7.1 percent; fuel, 1.2 percent; and agricultural means of production, 14.6 percent.

The cost of living index for employees went up by 11.3 percent, and that for peasants by 8.8 percent. The price index for services rose by 16.4 percent.

The general purchase price level of agricultural and sideline products rose by 10.2 percent in 1987.

The price index for urban and rural fairs rose by 19.3 percent from 1986, 17.2 percent for rural fairs and 20.8 percent for urban fairs.

### VI. Foreign Trade and Tourism

Foreign trade grew considerably. Hunan's foreign trade was worth \$746 million in 1987, a 19.6-percent increase over 1986. Exports totaled \$619 million, up 23.1 percent. Imports totaled \$127 million, up 5 percent.

In 1987, Hunan absorbed \$28.9 million in foreign capital, 2.1 times that in 1986. This included a 41.7-percent increase in compensation trade and a 670-percent increase in loans. In 1987, 36 agreements were signed on the use of foreign capital totaling \$51.55 million. However, foreign investment in joint ventures and cooperative ventures fell below the 1986 level.

The tourist industry developed rapidly. In 1987, the province received 57,100 tourists and visitors, 38.5 percent more than in 1986. Among them, 21,900 were

foreigners and 35,200 were overseas Chinese and compatriots from Hong Kong, Macao, and Taiwan. Foreign exchange earned through tourism during the year amounted to \$3,761,800, up 46.4 percent from 1986.

### VII. Science, Technology, Education, and Culture

In 1987, the scientific and technological departments in the province, while focusing on the central task of enhancing economic prosperity, intensified the reform of the scientific and technological management system and actively promoted scientific research. They achieved results in 1,559 research projects, of which 2 won state awards, 186 won provincial awards, and 75 percent were put to practical use. The "spark program" made good progress in 130 projects. The scientific and technological market was expanding, and 227 deals were made for the transfer of technologies.

The ranks of scientists and technicians continued to grow. In 1987, a total of 665,900 scientists and technicians were employed in local state-owned units, a 9.6-percent increase over 1986. They included 287,000 natural science specialists and technicians, up 6.7 percent, and 378,900 social scientists, up 12 percent.

Organizations under the provincial science and technology association achieved remarkable successes in fighting poverty with science and technology, supporting the town and township enterprises, and training out-of-school young people in rural areas. These organizations functioned as a scientific and technological consulting network, providing consultations on 2,972 projects in 1987.

Patent work also developed. In 1987, the patent office received 1,412 applications for patent rights and granted 535 patents, a 180-percent increase over 1986.

The meteorological departments continued to step up research work, improved the accuracy of weather forecasts, and provided socially and economically useful data.

Education developed steadily in the course of reform. Graduate schools admitted 874 new students, bringing the total enrolment of graduate students to 2,771, of whom 666 received postgraduate degrees. The 50 universities and colleges in Hunan enrolled 27,100 new students, a 13.4-percent increase from 1986; the total student body was brought to 83,400, up 6.7 percent; and 22,700 graduated in 1987, up 37.6 percent. Secondary schools (including technical secondary schools, vocational agricultural schools, skilled workers schools, and regular senior and junior middle schools) had a total enrolment of 2,877,800, up 2.1 percent from 1986. Enrolment in vocational agricultural schools totaled 92,600, up 9.5 percent, and in skilled workers schools 41,800, up 8.1 percent. There were 7,384,000 students in primary schools, a drop of 2.7 percent. The attendance

rate of school-aged children was 98.2 percent, 0.4 percent higher than in 1986. Enrolment in kindergartens totaled 835,200, up 5.3 percent from 1986.

Adult education continued to develop. In 1987, there were 81,200 enrolled in institutions of adult higher education, up 0.6 percent from 1986; 150,300 enrolled in vocational middle schools, up 60.8 percent; and 323,200 in adult skills training schools, up 38.1 percent.

New successes were achieved in the cultural field. In 1987, Hunan produced 7 feature films, released 181 feature films, and produced 49 television films in 91 parts. At year's end, there were 13,057 film-projection units, 106 performing art troupes, 127 cultural centers, 113 public libraries, and 38 museums and memorial halls. In 1987, Hunan entered four items in China's art festival performance. There were 7 broadcasting stations, 27 radio transmitting and relay stations, 10 television stations, and 22 television transmitting and relay stations each with a capacity of more than 1,000 watts. Television broadcasts reached 85 percent of the population. In 1987, 729 million copies of newspapers, 66.32 million copies of magazines, and 334 million copies of books (including textbooks and pictures) were published.

### VIII. Public Health and Sports

Medical facilities improved, and the number of medical and technical workers increased. At the end of 1987, there were 10,392 health organizations including 4,132 hospitals. The number of hospital beds increased to 139,600, up 3.6 percent. Professional health workers numbered 162,800, a 3-percent rise from the end of 1986. The total included 6,700 physicians practicing traditional Chinese medicine, up 4.7 percent; 24,400 doctors practicing western medicine, up 6.1 percent; 33,700 practitioners with secondary medical school training, down 0.9 percent; and 28,600 nurses, up 4 percent.

Vigorous development and outstanding achievements were registered in sports. In 1987, Hunan's athletes won 25 gold medals in international tournaments and 30 gold medals in national competitions. Three athletes broke five world records on six occasions; three broke three Asian records on seven occasions; and 18 broke 17 national records on 20 occasions. At the 6th National Games, the Hunan team placed 12th in total score, as compared with its 25th place in the previous national games. Mass sports activities flourished.

### IX. Living Standards

With steady production growth, people's income continued to increase. In 1987, Hunan's gross payroll (including price subsidies for meats, etc.) totaled 7.308 billion yuan, an 18.2-percent increase over 1986. The average annual wage for employees was 1,458 yuan, up 13.6 percent. If price rises are taken into account, the real increase was 2.1 percent. A sample survey of peasant

families showed an average annual per-capita net income of 471.3 yuan, an increase of 31.64 yuan or 7.2 percent from 1986. The increase was 1 percent in real terms. The average per-capita net income included 438.48 yuan from productive activities, a 7.2-percent increase. The income rise was uneven among urban and rural residents at various levels. The real income of 22.5 percent of urban families dropped because of price rises, and 6.5 percent of rural families can hardly make ends meet.

Reforms of the labor system progressed fairly well, and employment rose. In 1987, 166,200 people found jobs, a 17.9-percent increase over 1986. At the end of 1987, there were a total of 5,152,200 employees in Hunan, 22,430 more than at the end of 1986. Among them, 210,900 were contract workers in state-owned units, 83,000 more than in 1986. Self-employed workers in cities and towns totaled 236,600, or 52,200 more than in 1986.

Savings deposits increased sharply in both urban and rural areas. By the end of 1987, individuals' bank savings amounted to 9.976 billion yuan, a 35.7-percent increase from the end of 1986. Of the total, 6.688 billion yuan was deposited by urban residents, up 39.7 percent, and 3.288 billion yuan by rural residents, up 28.1 percent.

Housing improved for both urban and rural residents. In 1987, state-owned units built 3.87 million square meters of new housing, and 54.01 million square meters of new homes were built in rural areas.

Social welfare services continued to improve. There were 65 social welfare establishments run by the civil affairs departments in the province at the end of 1987, 14 more than at the end of 1986, and they took care of 3,083 people, an increase of 11.2 percent. Most of the poor families in urban and rural areas could find relief and support. Work and study opportunities and conditions for the disabled were improved. Progress was made in supporting the poor old-liberated areas, minority areas, and remote border areas.

## X. Population

The natural growth rate continued to rise. According to a sample survey of 1 percent of the population, Hunan's birth rate in 1987 was 23.62 per thousand; its mortality rate was 7.07 per thousand; and its natural growth rate was 16.55 per thousand, up from 13.6 per thousand in 1986. At the end of 1987, Hunan had 57.94 million people, over 900,000 more than at the end of 1986.

Note: The gross national product, national income, and total output value listed here are calculated in terms of 1987 prices, and the rates of growth are calculated according to comparable prices.

1. Gross national product refers to the increased value of both the material productive and nonproductive sectors, and net income from abroad, not including the value of products and labor services consumed by intermediate units.

2. This includes the total output value of agriculture and of collectively and privately owned rural industries, construction, transport, and commerce.

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## FINANCE, BANKING

### Conable Says World Bank Will Assist Country's Economic Development

40060231 Shanghai SHIJIE JINGJI DAOBAO in Chinese 4 Apr 88 p 1

[Report on interview with Barber Conable, president of the World Bank, in Shanghai, by correspondent Pan Muping [3382 1970 1627], date not provided: "The World Bank Will Vigorously Support China's Strategy of Coastal Economic Development"]

[Text] "I am deeply impressed by China's strong commitment to economic reform and by the concord among your top leaders concerning the strategy of developing China's coastal economy."

This is the way Barber Conable, president of the World Bank, summarized his impressions of his meetings with General Secretary Zhao Ziyang, Acting Premier Li Peng, and other Chinese leaders during an interview with this reporter in Shanghai. And he, in turn, left me with the following impressions.

The World Bank is lending full support to China's modernization program and economic reform.

The World Bank will fully assist our strategy of developing China's coastal economy.

Real numbers are often more convincing than anything else, so here are the figures President Conable gave this reporter.

The bank provided China with 52 loans amounting to \$5.5 billion between 1980 and 1987.

For 1988, the bank has promised us 12 loans totaling an estimated \$1.8 billion.

Between 1988 and 1992, the bank will provide us with more than \$12.0 billion in loans (including hard loans from the International Bank for Reconstruction and Development and soft loans from the International Development Association).

More significantly, the bank's dealings with China will gradually advance beyond project loans to structural, program loans. Mr. Conable said that, to assist China's policy of agricultural reform, the bank is now negotiating with our country to extend the bank's first loan for restructuring our agricultural production and that, if this project proves successful, the bank will provide us with more structural loans. Another change is that the bank plans to extend restructuring loans to China's provinces. The World Bank, said Mr. Conable, is not a bank in the traditional sense of the word but rather is a developmental agency which aims, among other things, to reduce poverty.

Before arriving in Shanghai, the president flew to Gansu to observe first hand the poverty of one of China's poorest regions, Dingxi County. In this connection, he indicated that the bank will provide a series of project loans to help China fight poverty.

When this reporter asked if any problems existed in the bank's relationship with China, Mr. Conable said he thought the relationship was excellent and cooperative and that, if anything approximating problems could be said to exist, that would be that bureaucratism on both sides often delays projects, and he expressed the hope that China would draw on its loans more rapidly and formulate a long-term plan of development so as to enable the two sides to design loans to better fit China's long-term development priorities.

When this reporter noted that, according to estimates made by western bankers and international financial agencies, China's external debt has grown quite rapidly and has already reached \$30.0 billion, a development that has caused widespread concern in our country that we may be following in the steps of a number of major debtor nations in Latin America and may one day also suffer from too great a debt burden, Mr. Conable replied he felt that China, in contrast to the major Latin America debtors, had achieved spectacular economic growth; that the World Bank has always been moderate in assisting China's economic development; that China is capable of dealing with its debt problems; and that the bank does not encourage nations to assume more debt than they can service. He also expressed his satisfaction with the way in which China has used foreign capital to promote economic growth.

At the close of the interview, Mr. Conable penned and signed greetings to our readers.

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**Opening Coastal Areas to Foreign Banks**  
40060224 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 28 Mar 88 p 12

[Article by Xu Lilai [1776 4409 5490]: "Major Coastal Cities Must Take the Lead in Opening up to Overseas Chinese and Foreign Banks; We Must Join the World Economic System as Fast as Possible; the Strong Desire of External Banks That Have Offices in China To Upgrade Those Offices to Branch Banks and the Efforts by Existing Branches To Win Customers in Other Provinces and Municipalities Reflect the Trend Toward

Geographical Dispersion Among International Banks; We Should Use Policy Guidance To Promote the Healthy Development of External Banks"]

[Text] Due to changes in and the development of the global economy, international banks have gradually begun to focus on the domestic markets of the various countries of the world and to evolve a strategy of dispersing their operations around the globe. One of the clearest manifestations of this trend is the dramatic rise in the number and capitalization of foreign branch banks. For example, between the early 1970s and the mid-1980s, American international banks increased their foreign branches from 400 to more than 1,000 and the capitalization of these branches from \$5.2 to \$47.0 billion. The strong desire of overseas Chinese and foreign bank offices in China to upgrade to branch banks and the effort by existing branches to win customers in other provinces and municipalities and to expand their export settlement operations are, to a certain extent, a reflection of this change in international banking strategy.

But so far, except for the four banks that have existed in Shanghai since the early days of the People's Republic, no other external banks have been permitted in Tianjin, Guangzhou or any other coastal city. We believe that, to enable the coastal areas to join the world economy as soon as possible and to bring about the export-oriented economy that our central leaders have called for, major coastal cities must take advantage of this change in strategy on the part of international banks and decisively take the lead in opening up to these banks. Shanghai needs to open itself up more to and come up with a program to promote the healthy development of these banks. If implemented, these steps would produce positive effects in at least the following five areas.

**1. They will enable us to use more foreign capital.** The rapid rise in demand for such capital can no longer be met through reloans provided by domestic financial agencies, and foreign exchange loans from overseas Chinese and foreign banks can surely help make up shortages in credit and reduce operational risk and pressure faced by domestic financial agencies.

**2. The steps will promote growth of foreign trade.** When any major international bank possessing a global network enters our market, the bank is bound to bring with it a large supply of information. These banks will play a very important role as the restructuring of our foreign trade administration advances and as our medium and small enterprises employ more and more foreign exchange loans to import raw materials, equipment and machinery so as to engage in "massive importing and exporting."

**3. The steps will improve returns on the use of foreign exchange.** Direct borrowing by enterprises from overseas Chinese and foreign banks based on repayment capability will, first, subject the enterprises, their purposes in

borrowing funds and the operations funded through such borrowing to pressure from domestic and foreign markets and thus will enhance the enterprises' sense of responsibility toward foreign exchange use and, second, will introduce careful scrutiny and supervision by external banks over the use of such funds, which, in turn, will improve the results of foreign exchange use and enterprise repayment capability.

**4. The steps will promote improvement in the service provided by domestic financial agencies.** Faced with competition from external banks, domestic financial agencies will be forced to accelerate reform and adoption of modern banking and managerial techniques. These developments, in turn, will help eliminate widespread irrational distribution of foreign exchange loans and serious repayment delays.

**5. The steps will create an excellent environment for renting land to and attracting direct investment from foreigners.** Until domestic financial agencies learn and master the newest banking techniques and, more importantly, until China establishes multifunctional, computerized and modernized banking organizations, we should make use of the variety of services provided by external banks, which would help improve China's investment climate.

In opening China up to overseas Chinese and foreign banks, our financial decision-making agencies and local governments can commence with the following five areas.

1. All banks that provide us with low-interest loans and that have been closely involved in our import and export trade can be given priority in approval to establish branch banks.

2. To help external banks reduce the costs of their foreign exchange loan operations, we should establish special tax preferences for them. (Hong Kong currently levies a 17 percent tax on bank operations, Shenzhen 15 percent and Shanghai 55 percent.)

3. To enable external banks to obtain prompt, accurate information on prospective clients' credit worthiness, we must greatly increase the number of accounting firms in China and establish credit rating companies to provide socialized and standardized analyses of enterprise operations.

4. To alleviate the anxieties of external banks about issuing foreign exchange loans, we should permit the banks to exchange the renminbi proceeds they obtain from sales of collateral attached from defaulting enterprises on foreign exchange adjustment markets or to ship the collateral abroad tax exempt.

5. We should consider relaxing or eliminating restrictions on all other external bank operations that help localities increase exports and foreign exchange earnings, improve economic results or promote development of export-oriented economies.

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#### **Warning Issued on 'Vicious Cycle' of Interest Rate Increases**

40060226 Shanghai *SHIJIE JINGJI DAOBAO* in Chinese 28 Mar 88 p 12

[Article by Zhang Debao [1728 1795 1405], deputy director of the International Finance Research Institute of the Bank of China: "Beware of the Vicious Cycle of Rising Interest Rates: In the Past Several Years, These Rates Have Climbed Continuously and Show No Sign of Declining in the Foreseeable Future; In This There Lurks the Ominous Danger of a Vicious Cycle; Inflation, Tight Capital and Supply Shortages Will Lead to Increased Fund Costs and Interest Rates"]

[Text] Through a number of readjustments, interest rates on savings deposits have risen steadily since 1980. For example, yields on time deposits held by urban and rural residents for precisely 1 year stood at 3.3 percent in January 1980, have climbed continuously since, and have now reached 7.2 percent, more than doubling. Returns on other investment instruments have been even higher.

This writer believes that the rise is due to a variety of factors. The first is inflation, which causes real returns on savings to decline. If these returns are to be preserved during periods of inflation, interest rates inevitably have to be increased by the same amount which prices rise. Another factor is that, when the central bank tightened credit supply in the past, investment in economic development did not fall proportionately, so demand for capital has remained high. Faced with shortages on capital markets, enterprises in desperate need of funds have been forced to pay high rates of interest to obtain those funds. And to a certain extent, competition among banks has also helped to push interest rates higher. What is important to note, however, is that China's interest rates are too rigid, cannot be adjusted as needed, have risen continuously over the past few years and show no sign of declining in the foreseeable future. In this there lurks the ominous danger of a vicious cycle: As prices rise supply contracts, so shortages develop, driving the costs of raising capital and interest rates upward. For example, short-term (under one year) equipment and industrial loans granted to enterprises have risen from 4 percent in early 1980 to 6.6 percent now. These increases boost the cost of raising capital, and since enterprises cannot absorb all of these new costs themselves, they pass them onto consumers, creating a new round of price increases and thus driving interest rates even higher.



Boosting interest rates and contracting credit supply have traditionally served as effective means of dampening inflation. In China, however, these measures have ironically triggered inflation. This contradiction must be carefully reevaluated. For interest rates can creep into costs and, to a certain extent, be passed onto consumers. Moreover, in China the rates on loans to enterprises are lower than those on savings deposits. Therefore, in our country interest rate levels have little effect on enterprise economic calculations.

To enable these rates to function properly as economic levers, we should reform interest mechanisms, restore flexibility to the rates and formulate a system of indicators (including price levels, capital supply, rate of economic growth, state macroeconomic financial policy, and the like) and use these indicators to guide changes in the rates. In addition, credit tightening must be coordinated with efforts to cool off overheated economies and to reduce capital construction so as to prevent demand from outstripping supply and fund shortages from developing. And we must also strengthen control over interest rates and prevent competition for funds from driving the rates up.

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## FOREIGN TRADE, INVESTMENT

### Japanese Investment, Country's Strategies on Entering World Markets

40060181a Shanghai SHIJIE JINGJI DAOBAO in Chinese 14 Mar 88 p 1

[By Zhao Wendou [6392 2429 7591]: "China Must Use Three Key Strategies As It Enters the Great International Cycle. During the Past 2 years, the International Economy's Great Cycle Has Gone Through a Critical Transformation, and This Kind of Transformation Has Been Most Obvious As It Flowed From Japan to the NICs and From the NICs to Southeast Asia. The Transformation Is Also Emerging All Along China's Coastal Region, Providing the Chinese Economy With an Excellent Opportunity for a New Take-Off. According to a Recent Large Scale Survey Done in Japan, Japanese Enterprises Are Increasingly Interested in Investing in China"]

[Text] The international economy is changing and the Japanese economy is changing. There are drastic economic changes among the NICs (Newly Industrializing Countries) and in rest of the Asian region as well. Fundamental transformations have occurred because of earthshaking changes in the international economic environment and because of drastic changes in the international economy's great cycle. This kind of transformation has been most obvious as it flowed from Japan to the NICs and from the NICs to Southeast Asia. It is also emerging all along China's coastal region, providing the Chinese economy with an excellent opportunity for a new take off.

Frankly speaking, there is not enough data to estimate what positive affects the rise of the Japanese Yen will have on China. In Japan, parties concerned with this matter have conducted several surveys which have shown that Japanese enterprises still have high expectations regarding investment in China. However, because China's investment climate still has not been able to satisfy Japanese enterprises, these enterprises are hesitating to invest.

With opportunity in sight, China still faces three challenges: 1) Does China have the ability to replace the NICs as exporters of goods to the United States? 2) Does China have the ability to compete with the NICs in the Japanese market? 3) Does China have the ability to attract capital and technology from Europe, from the United States, and from Japan? The above three questions may also be turned around and regarded as the three key strategies which China must use as it enters the international economy's great cycle. Of course, we must first start by developing labor-intensive processing and assembling industries and aggressively develop an export-oriented processing industry in which we import three kinds of raw materials for processing and engage in compensation trade. This is an effective means by which we will realize our three objectives. Towards this end, we need to adjust our policies on industry, exports, and foreign economic cooperation. At the same time, it is necessary for China to study the experiences of Asia's four NICs as well as the experiences of the nations of Southeast Asia.

Looking at Japanese enterprises, we see a positive trend of faster growth in investments in China. For example, Hitachi Corp. is going to invest in building a factory in China. Seiko and Citizen, using Hong Kong as an intermediary, are setting up watch manufacturing factories in China. Yokogawa Electric Corp is establishing their electronic watch production bases in Xian and Suzhou. Sumida Electric Corp is reducing its production in South Korea and moving it to Guangdong. They plan to eventually transfer half of their total production to China. If these enterprises do succeed in their trend to produce in China, even more Japanese enterprises will be encouraged to do the same thing.. If China works hard for several years to improve its investment climate and creates a good climate for foreign investors, China's economy will also realize the growth and change that is happening to the other economies of Asia. 12669/09599

### Beijing Scientific 'Special Zone' Corporation Aims at International Market

40060181c Beijing GUOJI SHANGBAO in Chinese 11 Feb 88 p 2

[By Wang Yixia [3769 0181 1115]: "The Beijing Xintong Computer Technology Corp. Has Developed a New Product With Which To Open Up International Markets"]

[Text] The Beijing Xintong Computer Technology Corp., located on Dianzi Street, Zhongguan Village, Beijing, has had the good experience of using technology

development funds in order to develop a new product needed on the international market. The product is an IBM-XT, Korean-language DOS software, and it is selling well in South Korea, Japan, and the United States. Through the end of last year, the product earned over 400,000 dollars.

The Beijing Xintong Computer Technology Corp. is a civilian-run science and technology industrial corporation. It was organized in 1984 through the combined efforts of the Chinese Academy of Sciences' Computer Technology Research Institute, the academy's Scientific Instruments Plant, and the Haidian District's New Industries Joint Corp. Since 1985, Beijing Xintong has put a specified percentage of its investment into a technology development fund in order to enable itself to develop and produce new technological products for entry into domestic and foreign markets. Any unit or individual may submit projects or topics for use of these funds. These submissions will be discussed by experts who must select those projects or topics which have a greater impact, and they must determine which will have greater economic and social benefits. During the last 3 years, the fund has supported the developments of 13 projects. Among these projects was the Korean-language DOS developed through the cooperative efforts of Xintong Corp. and the Yanbian Korean Autonomous Prefecture Scientific Research Institute in Jilin Province. The project took only seven and a half months to finish, and the New Technology Development Bureau of the Chinese Academy of Sciences has determined that the software is the first of its kind in China and also that it meets international standards. The Qianlima language is used to load 11,172 Korean characters into the computer after which Korean texts can be created through the keyboard. After the Deputy Director of the Democratic People's Republic of Korea's Academy of Sciences visited China, he was pleased with the system, and he invited Xintong Corp. to visit North Korea in order to exchange ideas. Because in many ways this DOS software is superior to the Korean-language microcomputer system developed by the Japanese, Korean businesses in Hong Kong and Southeast Asia are now showing a willingness to be dealers for Xintong Corp..

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**Two Breakthroughs in Overseas Labor Export Market**

40060181b Beijing GUOJI SHANGBAO in Chinese  
11 Feb 88 p 1

[By Fan Fu [4636 4395]: "Two Breakthroughs In China's Overseas Labor Services Cooperation; over 60,000 People are Working Overseas and the Total Amount of Their Contracts Is Worth Over 1.7 Billion Dollars"]

[Text] Recently, the Foreign Economic Cooperation Department of the Ministry of Foreign Economic Relations and Trade invited responsible persons from some

companies engaged in international economic cooperation to attend a conference in Beijing. Vice Minister Lu Xuejian and Assistant Minister Wang Wendong presented certificates, trophies, and prizes to 22 advanced collectives, to 2 model workers, and to 17 advanced workers. All these recipients were companies engaged in foreign economic relations and trade.

During the conference, Comrade Ulanmulun, Director of the Foreign Economic Cooperation Department of the Ministry of Foreign Economic Relations and Trade, reported on China's overseas contracts for construction projects and labor services cooperation in 1987 and also on enterprises China set up in foreign countries during the year. He said that even though 1987 saw a depressed market in international contracting and even though competition was fierce, the active support of relevant departments and the efforts of companies helped China realize good results in obtaining contracts for construction projects and labor services cooperation and in setting up enterprises overseas. The total amount of contracts concluded reached 1,743,000,000 dollars, 28.52 percent higher than the 1986 amount. For the first time, the value of overseas contracts for construction projects exceeded that of South Korea's in 1987 ( 1.71 billion dollars). With this year's figures, China has realized two breakthroughs. In the first place, the figures surpass those of 1984, which historically has been the best year for contract construction projects and labor services cooperation (in 1984, the contract amounts reached a total of 1.73 billion U.S. dollars and a great proportion of this amount was from projects involving deferred payment ). Moreover, 80 percent of all contract projects were paid for in cash. As for the second breakthrough, even though the number of workers going to Iraq was reduced by more than 10,000, by the end of 1987 the number of workers overseas increased to over 60,000, more than 10,000 above the 1986 figure of 50,000 workers and the highest number we have had abroad ever. In addition to these breakthroughs, business volume and all other economic indicators have overfulfilled that planned for 1987.

12669/09599

**Country's Foreign Debt Administration Analyzed**

40060251 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 1, 30 Jan 88 pp 54-59

[Article by Ding Jianping [0002 0494 1627]: "Some Ideas on China's Administration of Foreign Debt"]

[Text] This article will attempt to discuss one individual's ideas on issues in China's foreign debt administration. The discussion will distinguish between policy-making levels and executive levels.

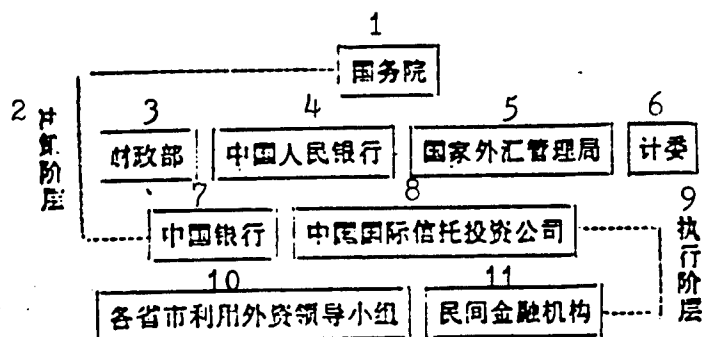


Figure 1. Two Major Levels of Foreign Debt Administration in China

- Key:
- |  |   |
|--|---|
| 1. State Council                                   | 8. China International Trust and Investment Corporation           |
| 2. Top Policy-making Level                         | 9. Executive Level  |
| 3. Ministry of Finance                             | 10. Provincial and municipal leading groups using foreign capital |
| 4. People's Bank of China                          | 11. Nongovernmental financial organizations                       |
| 5. State Bureau of Foreign Exchange Administration |   |
| 6. State Planning Commission                       |   |
| 7. Bank of China                                   |   |

I. Since 1982, when China first began overseas financing, many government organizations and juridical persons have gotten involved with foreign loans. These organizations include the State Planning Commission, the Ministry of Finance, the Ministry of Foreign Economic Relations and Trade, the People's Bank of China, the Bank of China (BOC), the China International Trust and Investment Corporation (CITIC), the State Bureau of Foreign Exchange Administration, various state ministries and commissions, provincial and municipal government organizations, and people's organizations. After several years of experience, two major administrative levels—top policy-making bodies and specific executive bodies—have gradually emerged. This can be diagrammed as follows:

Here the Bank of China and CITIC have a dual function. These two major levels constitute China's system of foreign debt administration. The composition of top policy-making strata illustrates the fact that China's foreign loans must be part of the state's macroeconomic plan and be woven into the government's budget. The amount of borrowed foreign funds must simultaneously take into account how much domestic currency has been issued and the inflation rate, as well as being coordinated with China's foreign exchange reserves. The State Council must approve borrowing institutions and the State Bureau of Foreign Exchange Administration must examine and approve the loan plan. The specific executive bodies must be organizations that are familiar with and familiar to the international financial market, and they

should be proficient in professional work. These organizations handle screening, appraisal, negotiations, signing of agreements, and post-loan administration. But it must be pointed out that up to now China's foreign debt management system has lacked an official central organization with the authority to plan and coordinate the nation's foreign debt, whereas this kind of official organization is very common abroad. Some countries, empowered and supervised by their parliaments, have established "foreign-debt planning commissions" or foreign-debt management and advisory commissions. This kind of organization is commonly a national trans-sectoral organization. The commission members include representatives of the nation's economic sector, financial sector, and central bank, and the administrative head of its commercial bank. The specific executive bodies differ widely from country to country. We can institute an appropriate combinations of executive bodies to conform with China's own national conditions.

II. Foreign debt administration in the top policy-making levels can be divided into qualitative and quantitative administration.

Qualitative administration primarily includes clarifying statistical limits on foreign debt, determining macroeconomic policy goals for the national economy, formulating investment strategies, coordinating the various management links, and improving the administrative focus.

First we must clarify statistical limits on foreign debt. Seeing that the numerical value of foreign debt China

itself reported to the International Monetary Fund differs by several billion dollars from the amount the Fund understood there to be, we should first analyze how the international definition of foreign debt differs from China's definition. The World Bank's definition of foreign debt is as follows: "Debt that is owed to nonresidents. World Bank data, unless otherwise specified, cover external debt that has an original or extended maturity of one year or more and that is repayable in foreign currency, goods, or services. Transactions with the International Monetary Fund are excluded (with the exception of Trust Fund loans). A distinction in medium- and long-term debt is made between private non-guaranteed debt and public and publicly guaranteed debt." (Footnote 1) (World Bank: "1985 World Development Report," pp. ix-x) In March 1984 the Auditors' Working Conference on Foreign Debt, composed of representatives of the International Monetary Fund, the World Bank, the Bank for International Settlement, and the Berne Union, reached an agreement on the following definition of foreign debt: "To arrive at a common statistical foundation, foreign debt should be defined as foreign debt on which there are conditional repayment responsibilities. Hence, this does not include direct investment or enterprise capital stock. In this definition foreign debt includes all debts that require repayment to nonresidents using either foreign or local currency as the accounting unit, and excludes foreign-currency debts to residents. The International Auditors Association agrees that, in practice, the two criteria for stipulating a foreign loan should be whether the target is a resident, and whether the loan entails conditional repayment responsibilities." (Footnote 2) (Zhong Heng [6988 5899]: "State Administration of Foreign Debt (Part 2)" GUOJI JINRONG, July 1987) In addition, foreign debt is defined internationally as the total quantity of a nation's government-guaranteed foreign loans contracted in public and private sectors in a particular time period. Inasmuch as China still has no unified definition of foreign debt, I believe the statistical limits of foreign debt should be as follows: 1. We should exclude direct investment and corporate capital stock from the calculation of foreign debt. Because there is no repayment period for direct investment, there is no precise, predetermined yield. 2. Residence or non-residence, rather than accounting units using "foreign currency" or "domestic currency," should constitute the demarcation line that distinguishes domestic debt from foreign debt. 3. We should include short-term loans in foreign debt, because short-term loans are the ones most likely to precipitate a debt crisis. 4. Those foreign loans that feature restricted repayment and that directly affect China's reserves of foreign exchange should be included in the foreign debt. 5. Those foreign loans guaranteed by our government should be included in the foreign debt. Some people in China consistently lump the amount of foreign debt together with the amount of foreign capital utilized, and count direct foreign commercial investment in Chinese enterprises with three sources of capital as part of our foreign debt. Because the quantity of direct investment in China is a huge figure, there is controversy

over this point (from the perspective of international revenue and expenditure, direct investment is a kind of debt relationship). We must also clarify merchandise credit in China, such as international leasing and compensation trade, that is also part of the foreign debt, because if we cannot use commodities or labor services to repay debts, then we must pay in foreign exchange. At this point I must emphasize and call attention to the fact that when foreign merchants raise capital outside our borders, later to invest it in China and receive guarantees from certain Chinese organizations, this amount should also be calculated as foreign debt. However, before now this has frequently been ignored. For example, as of the end of September 1986, money which foreign merchants had raised overseas, but that was guaranteed by Guangdong enterprises and departments, accounted for 80.3 percent of the province's total foreign guarantees. If an enterprise's foreign exchange receipts become unbalanced, China must still use foreign exchange to repay the amount according to contract. This forms a hidden foreign-debt pressure on China.

Second, we must establish macroeconomic policy goals for China. In the four major Western macroeconomic goals, the economic growth rate and foreign exchange receipts are intimately tied to foreign debt. The reasons for incurring foreign debt lie in the two "gaps"—the savings gap and the foreign exchange gap. The American economists Qiannali [6929 4780 6849] and Sitelaote [2448 3676 0525 3676] have proposed this theory in their "two gaps model." When a country is developing, and domestic savings are limited, it cannot meet the demand for investment in expanded reproduction. At that point the country must incur foreign debts to make up the deficit. When economic growth occurs this way, the nation's capacity for foreign leverage also improves. According to Japanese economists who have analyzed the trend of China's international receipts over the next 10 years, if China can enhance administration of foreign exchange and at the same time incur foreign debt on an appropriate scale, given that we maintain a debt repayment rate of 15 percent or so, during the Eighth 5-Year Plan we will be able to maintain an average economic growth rate of 9 percent per year. But if we slack off on administration of foreign exchange, to maintain the same pace of economic growth we will have incur an additional \$130 billion worth of intermediate- and long-term foreign debt by 1995, and our repayment rate will rise to 34 percent. China will be in danger of becoming a debt-ridden nation. If we are to avoid this danger, we must keep the economic growth rate down below 3 percent. Although economic growth and foreign debt accumulation are a pair of positively correlated functions, when economic growth reaches the limit of a nation's labor productivity, the scale of increase in indebtedness will vastly exceed the economic growth rate. The low level of labor productivity in China has determined that the limit of labor productivity will also be low, so the growth of indebtedness will also be alarming. There is also an inevitable internal link between indebtedness and a nation's international

receipts. They are two different manifestations of the same phenomenon. International receipts are manifested in the flow of a nation's foreign exchange capital within a fixed period, whereas a nation's foreign debt is manifested in the quantity accumulated relative to a certain point in time. If one knows the total quantity of foreign debt (net) at a given moment and the flow of international receipts for a period of time in the future, as well as the state of changes in foreign exchange rates, one can determine the future accumulation or balance of debt for any given period. (Footnote 3) (Wang Yibing [3769 0001 0365]: "A Trial Discussion of Foreign Debt Administration," GUOJI JINRONG YANJIU, No 2, pp 47-49) In the past few years China's international receipts have not been up to the mark, and in one respect this reflects the effects of foreign debt. For a nation in which economic development has just taken off, it is difficult to coordinate economic growth, an international balance of receipts, and a moderate degree of foreign indebtedness. If such a nation blindly courts the economic growth rate, the growth of foreign debt will frequently run out of control. When a nation's policy-making strata determine macroeconomic policy, they should judge the hour and size up the situation, and to a certain extent determine the emphasis of macroeconomic policy according to the law of economic cycles.

Furthermore, policy-making strata should maintain a cautious attitude toward the growth of foreign debt and forestall mistakes in investment strategy. China's economy has been growing quite rapidly, and foreign debt has been growing even faster. We cannot depend upon "arbitrary uniformity" or "slamming on the brakes" to prevent the "lagging effect" in repaying principal and interest on a foreign debt. For example, prior to 1973 the foreign indebtedness of developing countries was no more than \$200 billion at most. Now, only 14 years later, the amount has shot up four-fold, to over \$1 trillion, leading to a debt crisis. In addition, the lofty plans that developing nations make frequently fall through because of uncontrolled indebtedness. For example, in 1980 Mexico's foreign debt amounted to \$39 billion when that nation embarked on a 3-year development plan to promote comprehensive industrialization. As a result, Mexico's total foreign indebtedness reached \$84.6 billion in 1982 and the nation sank into a debt crisis. China's foreign loan projects are also extensive—we have borrowed \$3.5 billion for the Daya Wan Nuclear Power Plant, \$600 million for the Shanxi Pingshuo Colliery, \$400 million for the Fujian Oil Refinery, and so forth. In 1986 matured, unrepaid foreign exchange liabilities owed by certain Guangdong departments alone (not including foreign debt, commercial credit, or BOC foreign exchange loans) accounted for 38 percent of the debt capital due for repayment. This is the first sign that China's foreign exchange liabilities are not being administered well. As far as investment planning is concerned, China has often neglected to borrow complementary renminbi funds corresponding to the foreign debt. Before or after incurring a foreign debt, we should invest a large quantity of preparatory domestic funds. It is true

that projects differ, and thus it is difficult to estimate the quantity of complementary renminbi funds. But the foreign debt incurred will inevitably upset China's money supply and commodity prices, increase the inflation rate, and perhaps have unfavorable consequences for the entire economy.

In addition, policy-making strata must coordinate borrowing, usage, and repayment to conform with national conditions. An emphasis on any one link to the exclusion of the other two will not work to the advantage of debt administration in China. Some people say that if foreign loans are used wisely, we need not worry that those who follow will be unable to repay them. We should have no fear of borrowing, but only of using borrowed funds unwisely. These views almost always place the emphasis in foreign debt administration on "usage," or the production sphere. I feel that perfecting our entire economic system will require a relatively long process, and improving labor productivity cannot be done overnight. If we do not "borrow" and "repay" carefully, and we look only to "wise usage" in the production sphere to ensure the repayment of foreign debt, we will not be working in accord with actual circumstances. Moreover, China is certainly not purely a market-economy nation, and a project's effectiveness cannot be equated with interest costs on foreign loans. We must enhance financial supervision and control over foreign loans. There are also people who say that China's vast territory and abundant resources form the material foundation for repaying foreign debt. I feel that it is also dangerous for us to rely solely upon natural resources to repay loans, and to neglect strong controls on foreign debt. For example, in 1982-1983 a debt crisis occurred in Latin America, which has relatively abundant natural resources, whereas debt problems have been avoided in Asian nations, where natural resources are relatively scarce. China should heed the warning of these examples.

Finally, policy-making strata should strengthen overall management and centralized administration of China's foreign debt. Right now various nations around the world are moving to strengthen centralized administration of foreign debt. As China has opened up and stimulated her economy, a large number of construction projects that have been on the back burner for a long time have been awaiting funding. For example, Shanghai needs to invest substantial funding just to resolve problems with municipal traffic, residential housing, telecommunications, water supply and drainage, energy supplies, harbors, airports, and traffic links with outside areas. Consequently, the State Council has consented to allow Shanghai to obtain financing in international financial markets. The borrowing principle is that the borrower shall repay the loan himself. At the same time, some enterprises that can earn foreign exchange will be allowed to give Shanghai financial assistance. But even so, Shanghai will still be unable to guarantee its capacity to repay its own foreign debts. Similar situations exist in various other provinces and municipalities. Foreign financial experts believe that an upsurge is at hand in

Chinese foreign borrowing. In various provinces and cities the demand for foreign financing has upset the BOC's monopoly on foreign exchange. All told, CITIC, the Bank of Communications, the Guangzhou Trust and Investment Corporation, the Guangdong Customs House, and the Fujian Investment Enterprise Corporation have all experimented with foreign financing. After Bao Yugang [0545 3768 0474] obtained foreign financing to construct the Ningbo Beilun Harbor, many nongovernmental organizations such as the Aijian Corporation, also prepared to approach international financial markets for financing. Obviously, the window of foreign borrowing is opening wider and wider for China. It is easy to fall into a confused rush to precipitate action after successive levels of authority for examining and approving operations are set up because there is no overall coordination and balance and because there are local and parochial interests. Consequently, I suggest that China can utilize direct and indirect administrative methods to manage foreign loans. We can adopt direct administrative methods to deal with major national projects and government borrowing. In order to administer foreign loans systematically and comprehensively, policy-making strata can set up departments to handle budgeting, examination and approval, monitoring, consultation, statistics, and distribution, and thus accelerate the turnover of borrowed foreign funds. For example, as far as deadlines are concerned, we should not transfer a 10-year loan to an enterprise without changing the time limit. We should recall the loan as quickly as possible based on the enterprise's actual circumstances and depreciation period. If that loan circulates once in 5 years, what was a single loan becomes two loans. This can vastly improve our foreign-loan utilization ratio. As for interest rates, loans to domestic enterprises cannot be extended at the same interest rate that applied when the foreign loan agreement was signed. We must suitably increase the interest rate to put some pressure on the enterprise. Indirect control primarily means targeting the overseas financing activities of local and nongovernmental enterprises. When local and nongovernmental organizations need foreign capital, we can encourage them to seek foreign financing, and the government can permit some enterprises that create foreign exchange to give local organizations financial aid. In addition, the government can provide loan guarantees and an assured foreign exchange rate (or provide an adjustable time period or other means of ensuring that local loans receive a guaranteed foreign exchange rate). When foreign loans are reduced, the government can adopt the following measures: 1. It can levy advance taxes on foreign-loan interest. Profits that foreign creditors earn on loan interest are thus reduced thereby restraining the extension of foreign loans (Indonesia, Malaysia, and Thailand use this method.) 2. It can require that the borrower deposit a portion of the foreign loan in the central bank at a low rate of interest or no interest at all (Brazil and Chile use this method). 3. It can stipulate that the lowest interest rate will apply when the government brings in new foreign loans on behalf of private departments. For

one thing, this ensures that enterprises with no experience in foreign financing will not borrow blindly. For another thing, it checks blind competition among foreign creditors and, in particular, restrains local borrowers that have especially poor funds certification. 4. It can restrict the loan period. The state can stipulate that private enterprises cannot incur short-term overseas loans. These two administrative methods are only tentative. If we have no set of goals for controlling the quantity of foreign loans, it will also be difficult for us to achieve our desired objectives.

Quantitative administration includes primarily establishing an econometric regression model, calculating the maximum indicator zone for foreign debt, and setting up a computer data base.

1. Establishing an econometric regression model. The purpose of constructing a model is to compare the actual quantity of foreign funding China realistically needs for economic construction with the theoretical value calculated with the aid of an econometric regression model, thus providing comprehensive information for setting policies. To construct a model, we must first look for and determine what variables affect foreign debt. Right now the following variables are internationally recognized to affect foreign debt: a nation's economic growth rate, the average per capita GNP and GDP, the balance of payments, trade revenues and expenditures, international reserves, import/export flexibility, relative or absolute exporting capacity, the inflation rate, the currency devaluation rate, the government's fiscal budget, interest changes in international financial markets, the trend of change in exchange rates, and the world's economic forecast. After the variables are identified, we must determine our parameters and carry out a regression test based on the degree to which they affect foreign debt.

2. Determining the indicator zone. The so-called indicator zone primarily points out the warning zone where debt crises easily occur. The purpose is to enable China to readjust the composition of foreign debt and restrain the foreign-debt growth rate. Although there are many international indicators we could copy, I believe we should determine the indicator zone based on concrete conditions in China. When Poland and Hungary incurred large foreign debts, they also considered the most common international debt indicators, but they nevertheless sank into a debt crisis. The three most common international indicators for total foreign debt are as follows: 1) The foreign-debt discharge rate (the ratio of capital repaid with interest in the current year to foreign exchange earned on exports in the current year) should not exceed 25 percent; 2) The ratio of undischarged foreign debt to GNP in the current year should not surpass 20 percent; 3) The ratio of foreign debt growth to GNP growth should be less than one. In addition, there are also partial indicators in several areas. For example, the balance remaining on intermediate- and long-term debts should not exceed the value of exports in the current year; the ratio of international

reserves to already withdrawn, undischarged foreign debt should be less than one; the proportion of foreign capital utilized should account for 5 to 10 percent of a nation's total funding needs; the ratio of the balance remaining on accumulated foreign debt to foreign trade and non-trade earnings in the current year should be less than or equal to 200 percent; and short-term loans cannot exceed 60 percent—and should be kept to within 20 percent—of a nation's total foreign debt. For example, India stipulates that commercial borrowing cannot exceed \$2 billion. Thailand stipulates that the repayment rate on most government bonds must not exceed 9 percent. In China some people have calculated that 1.85 percent of national income is the appropriate rate at which China should repay the principal and interest on foreign loans. The ratio of foreign exchange earnings on exports to debt repayment in China is 9.1 percent. Consequently, I feel there is still some room for improvement in determining China's indicator zone.

3. Establishing computer storage and a system for collecting data on debts. Every time a foreign debt is incurred or a loan granted, it should be assigned a computer number and promptly entered into the data bank. The purpose for this is to use computer programming to allow policy-makers to comprehend the entire national debt situation at any time. For example, after Denmark completed its computer system in 1982 it became possible to find out at any time the remaining balance on undischarged foreign debts in different currencies for different forms of loans for the portions under fixed interest rates or floating interest rates and carrying all different maturity dates. It also became possible to predict repayment conditions for the principal and interest on future debts and the quantities of interest and principal to be repaid each month for the next six months. Finally, it became possible to analyze the future movements of exchange rates and interest rates, and to use the computer to predict future changes in repayment. China is completely capable of establishing a computer system and monitoring debts in order to gain prompt information feedback.

III. Foreign-debt administration in the specific executive levels is manifested in three links: borrowing, usage, and repayment. As far as the intermediary financial organizations are concerned, the focus is on the strategy and tactics of borrowing and repayment. Western bankers estimate that China will obtain \$30-40 billion in foreign financing during the Seventh 5-Year Plan. Commercial loans will account for 50 to 70 percent of this, and the remainder will be composed of preferential credit from the World Bank and foreign governments. The World Bank is already prepared to provide China with a \$3 billion loan in the next 5 years, and the International Development Association is offering China \$500 million per year in preferential credit. Loans from these two sources will amount to \$7 billion. Western bankers are intimately aware of China's need for foreign funding, and have adopted corresponding policies. Consequently, China's practical executive levels should also vary their financing tactics and methods.

First, the BOC and CITIC should constitute the major borrowers of foreign funds in China. Since 1949 the BOC has always been China's major window on foreign finance, and it enjoys high commercial prestige in international financial markets. In addition, it has accounts with many large commercial banks overseas, and it has professional dealings with other banks and creditors. The BOC has a network of relationships distributed throughout the world, as well as specialists conversant in the profession. In these respects no other organization in China is a match for it. However, to avoid monotony and increase our appeal to foreign investors, we cannot do without interweaving a certain number of bonds issued by local and nongovernmental organizations. This is because, after foreign investors hold enough BOC and CITIC bonds, they may develop an interest in new bond issuers. If a local trust and investment company issues a bond connected with a project, this may attract even more foreign investors. But local companies cannot enjoy low-interest treatment. Therefore the BOC and CITIC raise capital on the international capital market and then transfer it to local construction projects, thus keeping costs low. Foreign investors feel it is inadvisable for there to be too many Chinese fund-raisers, but they also want some variation.

Second, China should establish and maintain an excellent market reputation. Reputation is the key to market competition. China hopes its own international reputation may come to resemble that of Norway or Sweden, which can raise a large quantity of low-interest funds in international capital markets at any time. But it takes a long time to establish this kind of reputation. The BOC has earned a triple-A rating in the Japanese market. The JAPANESE ECONOMIC NEWS says that 1985 yen and dollar bonds issued by the BOC received the lowest interest rate on the issue price in 10 years. In April 1986 the BOC put out a 12-year, 50 billion yen bond issue at only 5.3 percent interest. Japanese agents are now vying to sell these bonds at a price 10 points below the face value. This is obviously incurring losses. Perhaps this is part of the Japanese investors' strategy—to give something good first to earn a big profit later. China must also have strategic foresight with respect to foreign borrowing. Image is the important thing for China in raising money in a new market. When we "flash" the name "Bank of China," we reap market recognition and investor confidence. This opens the market and we do not have to negotiate repeatedly with foreign banks over 0.01 percent interest. If these foreign banks are financially strong, we can also establish long-term cooperative partnerships with them, and it may pay to make a few concessions on interest rates. Even if initial conditions are disadvantageous, so long as the bonds issued can be easily sold on secondary markets, this essentially establishes a foundation for a major bond issue later.

Third, we should choose the optimum time to enter the market. When the nation does not urgently need the cash, China can engage in small-scale financing in the various international money markets, with an eye to



establishing relations, accumulating experience, becoming familiar with leading organizations in the different markets, and preparing for necessary large-scale financing in the future. In addition, before we enter a new market we must have a program for allowing investors to familiarize themselves with China. China must use overseas publicity media to introduce and familiarize the outside world with China's political and economic situation. We should study and understand investors' needs and take the initiative to address their fears and concerns. Whenever necessary we should quickly readjust financing patterns and utilize new tools. Lauterpacht, vice president of the World Bank, has pointed out that China must not borrow too much on any one financial market in order to avoid saturating that market with Chinese loans or developing an over-dependence on any one financial market. In the past, more than 50 percent of China's bonds were issued by Japan, and this represents an excess concentration in that market. China should range farther afield to set foot in new markets, and should get into the European and American markets. The European and American markets each have their own respective characteristics, and obtaining financing there is quicker and more convenient than in the Japanese market. In addition, these markets possess vast funding resources and many kinds of currency, and currency conversion is easy. Prior to entering overseas markets, the various domestic Chinese organizations should first arrange themselves in some kind of order to prevent several domestic companies from simultaneously borrowing from the same market. In this area, China can adopt South Korea's method, which is to stipulate that at any given time only one bank may raise funds in any one financial market. Otherwise, competition among ourselves will reveal the weaknesses inherent in China's unsatisfactory foreign debt administration and lead to higher financing costs.

Finally, we must utilize the law of large numbers to regulate the composition of currency types, interest rates, exchange rates, and repayment periods. The law of large numbers is the law that expresses the dialectical relationship between inevitability and fortuity. Because of the effect of the law of large numbers, the total effect of a large volume of random factors inevitably leads to a result independent of individual random events. To avoid the risks of exchange rates, we can arrange the World Bank's 16 currencies according to their relative strengths. And to avoid a peak repayment period for loan principal and interest we can enter markets that have adjustable repayment periods and stagger loan deadlines. To maintain a reasonable ratio of short-, intermediate-, and long-term loans, we should keep the level for short-term loans down to within three months' import volume. The repayment period for intermediate- and long-term loans should be consistent with the project's payback period. By using continually renewing short-term loans, we can use short-term credit to make intermediate- and long-term investments, and thus avoid shortening the loan payment period. In China's foreign loans, the trend is toward shortening the loan payment

period. In addition to carefully absorbing intermediate- and long-term funding, we can also curb this trend by entering markets with adjustable repayment periods. Moreover, in the past most financing periods in China were 10-year fixed-interest loans. Although there are many advantages to this kind of loan, I believe it is essential for us to use the law of large numbers to suitably increase the number of floating-rate bonds. We still need to diversify our financing tools.

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### **Shandong Adopts Special Measures To Facilitate Foreign Trade**

*40060230a Jinan DAZHONG RIBAO in Chinese  
17 Mar 88 p 1*

[Text] In order to create conditions to facilitate imports and exports, the Shandong Commodity Inspection Bureau decided that in regard to certain aspects of import-export commodity inspections affecting foreign-invested enterprises and enterprises involved in the three forms of import processing and compensation trade they would implement special policies and procedures, provide quality services, and actively promote the transformation of Shandong's economy into an export-oriented one. At a news conference held by the bureau in Jinan on the afternoon of 16 March, Bureau Chief Liu Jinzhen [0491 6855 4394] announced the following special policies and procedures to guests from the press and economic circles.

**Facilitate large-scale import and export of commodities by foreign invested enterprises and import-processing and compensation trade enterprises; make turnaround easier.** One decision is to simplify procedures and formalities, and shorten the period for issuing inspection certificates. All import-export commodity inspections affecting foreign-invested enterprises and import-processing and compensation trade enterprises can be handled by a single office or department on a one-time basis, according to commodity type. If there is not enough time for formal inspection reporting procedures to be completed, an inspection report by telegram or telephone will be acceptable. An initial inspection will be carried out, with the formal procedures to be conducted belatedly. When an inspection trip to the production or unloading point is required, personnel will be dispatched for an on-site inspection. A second decision is to forego compulsory inspection of any import-export commodities of the foreign invested enterprises or import-processing and compensation trade enterprises which do not involve safety or health and which do not carry Chinese trademarks. The enterprises can conduct the inspections on their own, under the supervision of the commodity inspection authority. Certificates will be issued for commodities processed from imported materials or assembled from imported parts which the foreign interests certify are to be sold abroad. Quality control permits for export commodities of foreign invested enterprises and import-processing and compensation trade enterprises



which require them will be dispensed with for one year beginning from the date the first lot is exported. A third decision was that beginning 1 March of this year, all foreign trade businesses and production enterprises authorized to export will assume responsibility for their own inspection reporting. Those which qualify will be issued export permits in advance. For foreign trade businesses within the province which go to other provinces and cities to market their commodities, personnel will be dispatched to the production site to conduct inspections, or the local commodity inspection authority will be entrusted to conduct the inspections and issue certificates. The bureau will send people abroad to inspect the principal equipment to be imported by foreign investment enterprises and import-processing and compensation trade enterprises; for ordinary goods and materials imports, the bureau will entrust the foreign inspection authority to conduct inspections and issue certificates. While the bureau reserves the right to re-inspect equipment, in general all equipment which passes inspection abroad and an additional inspection conducted by the enterprises themselves when the equipment arrives, can be installed and put into operation, and the goods circulated or otherwise utilized.

**Actively help export-oriented enterprises to raise product quality, expand sales markets, and enable the province's export commodities to be of exportable quality.** This year the bureau and other relevant authorities will work closely with export-oriented enterprises in conducting joint quality inspections, and as much as possible eliminate factors from the production process which result in substandard products. At the same time, we will actively assist the relevant authorities in emphasizing reorganization of export enterprises, issuing quality permits to the key producers of export products which pass reorganization inspection, and approving export production arrangements. We will assign quality control supervisors to key export enterprises in accordance with state provisions, and assist plants to raise product quality. At the same time, we will expedite the formulation and revision of import-export inspection criteria, and work to have export enterprises organize production as quickly as possible in accordance with international standards or with the standards of the importing countries. We will also continue to actively recommend Shandong's outstanding export enterprises to the competent authorities abroad, and work hard to see that more of the province's export enterprises are approved and registered by the governments of other nations. They will also continue to exercise the authority granted by the state to the commodity inspection organs, and as much as possible give preferential treatment to more of the province's export commodities, including those of the foreign-invested enterprises and those processed from imported materials and assembled from imported components for sale abroad, which will increase the price competitiveness of Shandong's exports.

## PRC MEDIA ON FOREIGN ECONOMIES

### He Zhongxiu Discusses Soviet Reform

40060234 Shanghai *SHIJIE JINGJI DAOBAO* in Chinese 4 Mar 88 p 5

[Interview with He Zhongxiu, editor-in-chief of KEXUEXUE YU KEXUE GUANLI [THE SCIENCE OF SCIENCE AND MANAGEMENT OF S&T], by Lu Yi [7120 0001], correspondent of *SHIJIE JINGJI DAOBAO*; date and place not provided: "On His Return from the Soviet Union, He Zhongxiu Discusses the Central Elements of Soviet *Perestroika*: Mistakes Cannot Be Avoided in Reform, But the Greatest Error One Can Commit Is To Fear Making Mistakes"]

[Text] Soviet reform is an objective necessity resulting from the development of production. Soviet people of this generation must have a strong sense of the urgency of the times, recognize the responsibility of their era, and make more sacrifices for and not expect to reap the full fruits of reform. These were the opening remarks made by He Zhongxiu [0149 6988 4423], editor in chief of Tianjin's KEXUEXUE YU KEXUE GUANLI, during an extensive, late-night discussion of his recent trip to the Soviet Union.

The Soviet Union carried out reforms in both the 1960s and the 1970s, but these "miscarried." He Zhongxiu seemed to be addressing the shortcomings of these reforms as he detailed four major elements of the *perestroika* Mikhail Gorbachev is now carrying out.

### The Soviet Union Is Emphasizing General Concepts and Unified Objectives

Previous reforms focused on many extraneous issues, tried to resolve whatever problem seemed "salient" at the moment, and gave up and turned to other issues whenever problems or obstacles were encountered. As a result, some of these reforms were aborted, others went only half way, and still others even went backwards, which shook the confidence of the masses. At the 27th National Congress of the CPSU, Gorbachev proposed a clearly defined program of "fundamental reform," which envisioned a fundamental restructuring of the Soviet economic administrative system and set forth general concepts and unified objectives to effect the reform.

The Soviet Union is emphasizing three things in this reform. (1) The economic system should not be geared primarily toward adding new inputs of resources to production but rather should focus on saving and more effectively utilizing existing resources. (2) The system should not be oriented primarily toward increasing the quantity but rather should stress the quality of output, with the key emphasis being on motivating enterprises to improve their work. (3) The system should not focus purely on production to the detriment of everything else, but rather should attach increasingly greater importance

to scientific, technological and social development; that is to say, economic, S&T and social problems should all be stressed in a comprehensive way.

#### **The Soviet Union Is Stressing That Reform Should Commence From Within Enterprises**

At the symposium convened to prepare for the plenary meeting of the CPSU Central Committee of June 1987, Gorbachev noted that the reforms of the 1960s and 1970s had been implemented from the top down, beginning with planning and discussion of administrative problems by central agencies, followed by implementation by each level down the bureaucratic hierarchy. But it turned out, he said, that each level had its own "interpretation" of what it should implement, things were "siphoned off" at each level, everything was ultimately "filtered away," and consequently the new regulations or proposals were either obliterated or distorted beyond recognition by the time they reached grass roots levels and enterprises. "The highest levels monopolized everything and enterprises did not get a thing." It would seem that such reforms fit the logic of planned economy, but in fact the reforms never got off the ground, were not embraced by the people, and therefore were not carried out to their logical conclusions. This is one of the major reasons why the reforms of the 1960s and 1970s failed. Therefore, Gorbachev and other Soviet leaders decided that the new reforms must begin from the grass roots—from enterprises. The leaders believed that they must first consider and find a way to enable enterprises to give full play to their zeal and initiative, tap their potential, and improve efficiency. Then, appropriate, fundamental reforms of economic management must be effected at higher levels, all the way up to the very top of the system.

The June plenum of 1987 deliberated and the Supreme Soviet passed an important basic law, the State Enterprise (Integrated Corporations) Law of the Soviet Union, which stipulated that enterprises no longer be treated purely as implementors of state plans but rather begin producing for the market; clearly defined the rights and responsibilities that enterprises must have to fulfill this new role, including raising their own funds, managing themselves autonomously, being responsible for all profits and losses, and carrying out full systems of business accounting; and thereby charted a reform program that was to "sprout" up from below, stipulating that supervising units ensure that enterprises perform their legal responsibilities (rights and obligations), that local government policy support implementation of the enterprise law, and that units violating these and other provisions be reorganized and that individual violators be removed from office. Soviet leaders want to use this new approach to promote change in the higher levels of economic administration and to move away from the inveterate "system of centralized management." In the leaders' words, "the center is to provide support, and the lower levels are to pressure the top."

#### **The Soviet Union Is Emphasizing That Reform Must Be Coordinated and Complemented Through Unified Objectives and Guiding Ideology**

What is to be feared most in reform is that people hold each other back. Previous Soviet reforms lacked clear, unified goals, so people interpreted things differently and did their own thing—some moving fast, others slowly—did not work together, and continuously passed the buck, so that things that could have been accomplished went undone. The current reform, however, has given a free hand to the grass roots, and the Soviet Council of Ministers has passed 11 specific resolutions to complement reform, including legal measures for the enforcement of the enterprise law and resolutions concerning the planning of reform, improving the control of the State Commission for Science and Technology over programs to advance S&T, reorganizing protection of producer goods and technologies, reorganizing the financial system and improving the function of the Ministry of Finance, the principal methods to be employed in restructuring prices, the measures to be used to improve the banking system, ways to fundamentally improve statistical work, reorganization of agencies supervising and ministries administering production of producer goods and materials, improvement of state administrative agencies, and enhancement of the role of the State Commission for Labor and Social Problems. Gorbachev has emphasized that reform is a complex process of social engineering that requires unified goals, an integrated approach, cooperative effort and coordinated movement and that economic restructuring itself cannot be carried out in a vacuum but must be accompanied by political and social reforms, as well. Thus he believes that democratization and *glasnost* are fundamental guarantees of the success of *perestroika*.

These developments give one the impression that current Soviet reform is not aimed at a single salient feature, limited to one realm or lacking a long-term plan but rather is to be a comprehensive, integrated, synchronized effort that is to advance according to unified goals and a coordinated program.

#### **The Soviet Union is Emphasizing Reform Progress Schedules**

Traversing a track that was laid more than 60 years ago, the Soviet economy has developed considerable inertia; Soviet economic theory has hardened into a monolithic system in which many concepts have become unchallengeable dogma; and thus there is much resistance to reform and opinions greatly diverge whenever reform is discussed in that country. Of course, differing views of reform are quite normal, but hesitation and wavering in the face of opposition inevitably lead to indefinite delay and ultimately to "miscarriage" and suffocation of reform. Gorbachev himself has said that one of the saddest lessons of the Soviet reform of 1965 is that the country "moved too slowly," that leaders hesitated in making decisions and, therefore, that many of the

improvements engendered by the new managerial system established by the reform were negated. Thus he concluded that "mistakes cannot be avoided in reform," but "the greatest error one can commit is to fear making mistakes."

The 1987 June plenum of the CPSU Central Committee decreed that major enterprises (including research units) that contribute a combined total of two-thirds of the Soviet Union's gross industrial output value in 1988 are to operate under new conditions in 1989 and that thereafter all of these enterprises will enter the 13th 5-Year Plan with a new economic administrative system. "This," said He Zhongxiu, shows how confident Soviet reform planners are. But no matter what happens, he said, China's reform planners and decision makers must carefully examine the four central elements of current Soviet reform, for these have emerged out of the lessons that the nation has learned from its previous reforms.

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## AGRICULTURE

### Wu Urges Strengthening of New Rural Economic System

40060243 Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
Chinese No 1, 23 Jan 88 pp 9-11

[Article by Wu Xiang [0702 6272], Rural Development Research Center of the State Council: "Further the Reform Process: Strengthen the New Rural Economic System"]

[Text] As pointed out at the 13th Party Congress, the socialist transformation of the private ownership of productive factors to attain a basic form of modern socialism takes about a century, and this is only the initial stage of socialism. During this long period our task is to develop the productive forces.

During the initial stage of socialism, the primitive productive forces cause the production relations and the superstructures to be immature and imperfect in many ways. We need continuous reforms to perfect the socialist system step by step, and adapt ourselves, and learn to protect and promote the development of the productive forces. Therefore, reform is the thrust behind the development of the socialist society. It is not just a measure of expedience, but is an integral part of the overall guiding principle and general policy in the construction of a socialism with Chinese characteristics.

The purpose of reform is to develop the productive forces, and develop a socialist commodity economy. But reform and development are not instantaneous. The assessment of a reform should not be based purely on production statistics, especially on changes in the annual

production figures. Rather, we should emphasize whether the new mechanisms and economic system are innovative and perfect, and emphasize the long-term effects.

1. The first phase of China's rural reform took place between 1979 and 1984. It was a period of major breakthrough in the system which spurred significant development in the rural economy. Grain production increased from 300 billion kilos to over 400 billion kilos, an increase of almost 400 kilos per capita. We basically solved the country's food problem. But many factors contributed to this spectacular growth. One key factor was the output-related system of contracted responsibility which mobilized the peasants' enthusiasm. Other contributing factors include the huge increase in agricultural product prices, material elements which have built up over the years, and latent market capacity. We should realize that the extraordinary growth rate was the product of unique historical conditions which restored and recompensed the economy.

In 1985 purchasing agreements replaced government monopoly of grain procurement and ushered in the second phase of reform, which broadened and became more thorough. The growth rate slowed and stabilized. There were some local obstacles. Many products were momentarily decontrolled, but were quickly put back under control. We were faced with regional blockades, departmental monopolies, market fluctuations, and inflation. We were ideologically unprepared for the many problems which were inevitable in the transition from the old to a new system, and many people wanted the accelerated development of the previous years to continue. Little did they realize that the unique economic conditions had changed, and therefore the growth pattern had to change too. As a result, under the complicated new conditions, many people began to have doubts about the outlook of rural reform, and some wondered if the family output-related system of contracted responsibility was a mistake after all.

In my opinion, the first phase of rural reform took place inside the villages, and the objective was to solve the microeconomic problems which were relatively simple. During that period, the country imported food in large quantities to allow the peasants to rest and regenerate themselves. The government also raised the price of the major agricultural products. These measures provided the proper external conditions for reform. The second phase of reform was quite different. Urban and rural reforms were integrated, and the latter became a part of the whole restructuring of the economic system, and therefore was affected by outside factors, and had to rely on, and be coordinated with, the restructuring of the urban economic and the political systems. Rural reform became much more complicated and difficult. For example, when urban enterprises were decontrolled, township enterprises had to face new challenges. Reform of the farm equipment industry made the producers responsible for their own profits and losses, and the price of

agricultural capital goods rose sharply as a result. Under a still-imperfect pricing system, the price scissors between industrial and agricultural products, which had narrowed, began to widen again. In particular, grain production became less profitable, which dampened the enthusiasm of the peasants greatly, and exacerbated the rural reform problems. But these are part of the reform process, and we must have confidence, and continue to implement the reform thoroughly, and we must not have doubts as soon as we are faced with some difficulties.

Was the family output-related system of contracted responsibility, the main ingredient of the first phase of the reform, a mistake? Was it an asset or an impediment?

During the five years of the first phase of rural reform, we saw five continuous years of surging agricultural production. It was a period of vigorous rural economic development during which the living standard of the peasants improved significantly. These are irrefutable facts. But they are only a small part of the success story. The major accomplishment of the first phase of reform lies in the resurrection of the rural economy. It opened up a closed system, and stimulated a stagnant economy, and turned a self-sufficient or partially self-sufficient natural economy into a full-scale commodity economy. This was the fundamental change of significant historical implications.

The family contract responsibility system not only changed radically the rigid commune system, but as a historic contribution, it rectified the deeply-rooted "leftist" error, and elevated the status of the peasants in the collective economy. In the past, the peasants were simply laborers, but now they are workers and entrepreneurs. They have the right to make their own decisions; they are motivated. The peasants have become true masters of the land, of agricultural productions, and the rural economy. They have become relatively independent producers of commodities, and true entrepreneurs responsible for their own profits and losses. This condition is vital to the development of the rural commodity economy.

The family contract responsibility system was a major breakthrough; it blazed a new trail in the socialist ownership system. "Contracted responsibility" separates the right of ownership from the right of operation, but integrates public land ownership and individual household operation. This eliminates the one-dimensional collective ownership system, and creates a new ownership system which is collective and individual at the same time. It is a new and versatile agricultural system which integrates central control with individual decision-making, and is a system which operates at two levels. On the surface, it may seem that the extent of public ownership has diminished, but in fact, it is perfect for our level of production capability at the initial stage of socialism. Furthermore, the allocation system has also been reformed to suit the character of the Chinese

countryside in the initial stage of socialism. The egalitarian "eating out of the big pot" system is replaced by the contract responsibility system which integrates power, responsibility, and profit, and makes the allocation of benefits among the state, the collective, and the individuals more reasonable to comply with the principle of "distribution according to work."

The family contract responsibility system turns the vicious cycle in the rural economy into a benign cycle and puts the mechanisms on the right track in the socialist commodity economy. China's villages are overpopulated. There are hundreds of millions of peasants to feed, and there is a huge surplus labor force. If we fail to change this situation, we will never be able to improve the poor and backward countryside, nor will we be able to modernize China. The family contract responsibility system allows the peasants to become independent. When they increase labor productivity and the productivity of the land, and become capable of supporting themselves, they will use their surplus labor time to develop a variety of businesses and township enterprises, and begin to have some basic savings. Out of self-interest, they will use their savings to create new surplus funds, and develop new industries and sources of income. This circulates and redistributes the key productive elements. The peasants will shift from low-income to high-income industries on their own initiative. They will commercialize their products, and make them more society-oriented. The problem of feeding the hundreds of millions of peasants will be solved gradually, and the vicious cycle in the rural economy will be tamed. These will give impetus to the economic development of the whole country.

2. The second phase of reform is founded on the first phase, and is a continuation of that process. It follows through with broader and more profound changes. Despite new complications and slower economic growth, the road to developing the rural commodity economy has been cleared, and the semblance of a new rural economic system which best suits the initial stage of socialism has emerged. The hundreds of millions of peasants have become relatively independent producers of commodities and entrepreneurs. The closed market monopolized by the state has turned into a multi-channel, multi-level open market run by the state, the collectives, and the individuals. Most agricultural products are bought and sold in the market. The industrial structure which was based on one method of operation and plagued by urban and rural separatism has become more diversified and comprehensive. A new economic format which is still dominated by public ownership but can accommodate a variety of economic elements and a diversity of businesses, is being created. Widespread lateral economic ties have promoted exchange and interaction among the different ownership systems. A macro-economic regulatory system is gradually being formed.

So far we have demonstrated that a rough framework of China's new rural economic system has emerged, but it is incomplete and has not yet developed into a perfect

system. In many areas the old system still survives, and sometimes it even prevails. While the new and the old systems coexist and interact, it is inevitable that there will be conflicts which create all sorts of antagonisms and problems. For example, although the peasants are independent decision-makers, the "central control" level of the two-level system is too weak. Individual households are scattered, and find it difficult to break into the market. Too much profit is dissipated between transactions, and the market is hazardous. It has been impossible to reform the pricing system. The long years of state monopoly of purchase and marketing has created special interests throughout the production, circulation, and distribution links, and every step of the reform affects the interests of the producers, the businessmen, the consumers, and the state and local governments. The difference in economic gains has spurred the development of the secondary and tertiary rural industries, but has made the peasants less enthusiastic about growing grain and has destabilized grain production. In a rural commodity economy, the individual economy is quick to develop and give rise to some private enterprises. This is inevitable, and this condition has more benefits than drawbacks. Besides, private enterprises can be controlled and molded. But many people still hold on to traditional ideas, and do not recognize private enterprises as a beneficial supplement to the socialist economy, and therefore, they want to reject and limit them. Opening up and enlivening the economy at the microeconomic level has allowed some people to prosper ahead of others and increased the income disparity, as well as made the distribution of capital goods uneven. We have yet to devise macroeconomic measures to modify these conditions. The replacement of an old system and old concepts with a new system and new ideas creates a very complicated situation. There are positive as well as negative effects, and people react differently to these phenomena. Therefore, we must be ideologically prepared. We cannot just hope that the transitional period will pass quickly but must have conviction in the reform, continue to implement it thoroughly, emphasize every bit of effort, and work solidly and steadily to reinforce, consolidate, and improve the process to build and strengthen a new rural economic system.

The main objectives of reform are to commercialize rural productions, develop the productive forces, increase the rate of commercialization, develop new merchandise, and develop the socialist commodity economy. Without a market, products cannot become commodities, and the self-sufficient or partially self-sufficient rural economy cannot become a major commodity economy. Building and perfecting a socialist market system is the thrust behind the transformation of the rural economy into a full-fledged commodity economy capable of massive production through society-oriented division of labor and cooperation. All our efforts must revolve around these objectives. Here, three points warrant special comments:

One, we must let the competent people be the leaders. Some people have a better understanding of the commodities. Whether the economy of an area can develop quickly depends largely on whether it has the courage to give full play to the more competent people and allow them to lead. Competent people are everywhere. In the past, under the "leftist" ideology, they were branded "restorers of capitalism." They were criticized. Even today, some comrades still do not trust them, and hesitate to rely on their ability. In truth, allowing the more competent people to lead while others follow is the surest way for the countryside, especially the backward areas, to develop the commodity economy. Nurturing one specialized household can give rise to a specialized village, a specialized township, a specialized sector, and a specialized market, and mobilize thousands of households to develop the local resources. If we rely on the competent people to lead the masses, and start small, begin at the local level, overwhelm our competitors by sheer number, and exhaust all ways and means, we can accumulate knowledge, experience, and funds by incremental attempts and small gains, and eventually we will be able to find new prospects in developing the commodity economy.

Two, we must put the emphasis on building and consolidating the market. Setting up a market is a good way to let the peasants learn about commodities, and interest them in the production of commodities. Today, there are more than 60,000 countryside markets, more than 5,000 of which are specialized markets. They play an increasingly important role in stimulating the rural commodity economy. However, development has been uneven. Some areas have developed faster than others, and have been able to set up a market for their products, and expand rapidly to impact a wide area. Most areas, however, have trouble starting and maintaining a market, especially the capital goods market, which is virtually nonexistent. Some markets are riddled with improper practices, and are chaotic. On the one hand, some transactions are coerced, and some people manipulate the market highhandedly, or even resort to fraud and deception. On the other hand, some departments in charge exact fees at random, and instead of managing matters, they levy fines, or even extort money, overtly or covertly. These practices must be rectified, and eradicated, if we want to have a proper market and provide the right conditions for effective market mechanisms.

Three, strengthen the government's management capabilities. The purpose of reform is to set up a system whereby "the state regulates the market, and the market guides enterprises." We do not advocate direct government intervention in enterprises, but this does not mean that the government has no economic role. In the initial stage of socialism, when the commodity economy has just begun to function, a primitive laissez-faire market economy will give rise to enterprises quickly, but it will not nurture their growth and maturity. In order to develop the socialist commodity economy, the government cannot monopolize everything, nor can it abandon

all responsibilities. Rather, it should follow a regular pattern to protect and encourage the producers of commodities, and actively guide them and serve them. As the rural commodity economy develops, the government will have increasing power to regulate market activities, but many government workers will become financially worse off compared to those peasants who have prospered as a result of reform. This easily will cause some officials to become corrupt. Therefore, the struggle against corruption is another major task before us.

12986

**State Announces Guiding Prices for Tea**  
40060244b Beijing JINGJI CANKAO in Chinese  
25 Mar 88 p 2

[Article by reporter Chou Xuezhong [0092 1331 1813]: "State Pricing Bureau and Department of Commerce Announce Tea Leaf Guiding Prices: Urging Areas to Price According to Quality, and Refrain From Raising or Suppressing Prices Illegal"]

[Text] In order to stabilize the price of tea, and prevent purchasers from downgrading the product to suppress the price, or upgrading to raise the price illegally. This year, except for sales to remote areas which is under planned management and subject to state set prices, all sales must adhere to the guiding prices.

The state pricing bureau and the department of commerce recently drew up this year's purchase price list for the standard intermediate grade of the main varieties of tea from the key production areas. They urge the pricing bureaus of the producer provinces and autonomous regions to cooperate with the business management departments, and follow the price guideline to set specific prices for the various grades of tea. The actual price may vary within 5 percent of the guiding price. The price for fine tea should be based on the guiding price of coarse tea but take into account the extra cost to derive a reasonable amount of profit.

The state pricing bureau and the department of commerce urge the purchasing units to sample and grade the tea diligently, and price them according to quality. People who fail to comply with state standards, or attempt to raise or suppress prices illegally will be charged with violating state pricing regulations, and will be disciplined by the price inspections department.

**1988 Tea Leaf Guiding Price List**  
(Unit: yuan/50 kilos)

Tea Variety	1988 Guiding Price	Tea Variety	1988 Guiding Price
Tea Leaf	209.89		
Coarse Green Tea	165.54	Yueqing	158
Tunlu	175	Guiqing	160
Shulu	173	Qianqing	150

**1988 Tea Leaf Guiding Price List**  
(Unit: yuan/50 kilos)

Tea Variety	1988 Guiding Price	Tea Variety	1988 Guiding Price
Tea Leaf	209.89		
Coarse Green Tea	165.54	Yueqing	158
Suilu	165	Dianqing	160
Wenlu	165	Red Coarse Tea	180.62
Pinglu	163	Qihong	218
Hanglu	162	Dianhong	218
Wulu	175	Yihong	176
Naolu	166	Ninghong	174
Xianglu	158	Chuanhong	170
Elu	166	Yuehong	145
Yulu	173	Wuhong	155
Huihong (cured)	172	Zhehong	160
Zhehong (cured)	162	Red Crushed Tea	330.90
Minhong (cured)	175	Grade One Sampler	365
Xianghong (cured)	160	Grade Two Sampler	360
Shanqing	180	Grade Three Sampler	335
Chuanqing	163	Grade Four Sampler	300

Footnote: With regard to prices, green coarse tea is separated into 4 classes and 8 grades at above the Xianghong grade and 3 classes and 6 grades for leaves between the Shanqing and Dianqing varieties. Red coarse tea is separated into 4 classes and 8 grades. Red crushed tea is priced for the intermediate grade specimen.

12986

**Commentary on Encouraging Growers To Increase Cotton Production**  
40060244c Beijing JINGJI RIBAO in Chinese  
1 Apr 88 p 1

[Article: "Encourage the Cotton Growers to Continue to Expand Cotton Production"]

[Text] Cotton production is subject to climatic conditions, but government policy is also a determining factor. Since the Third Plenum of the 11th Party Central Committee, rural economic policy adjustments have mobilized the enthusiasm of the cotton growers. At the same time, the state has expended much financial and material resources to support and develop cotton production. Since 1979, the central government has spent more than 16 billion yuan to support higher cotton prices, and has paid for 30 million tons of chemical fertilizers, and sold, as an incentive, more than 39 billion jin of grains to the cotton growers. These measures are the thrust behind the development of cotton production. In recent years, cotton consumption has skyrocketed while production has plummeted. To solve this supply-demand problem, we must try to increase production. To further mobilize the enthusiasm of the cotton growers,

the local governments must continue to provide stronger leadership, and it is also imperative that we maintain a policy to encourage cotton production.

To increase cotton production, we must set reasonable purchase prices. Last year, throughout the nation, the government purchased 26 percent more cotton than in 1986. This was due mainly to the State Council's decision to restore the reversed 3:7 price hike ratio in northern China to even out the north-south differences. As a result, nationwide, the purchase price was 4.1 percent higher than the year before. The cotton growers received an extra 7 yuan for each dan (50 kilos) of cotton they sold. Another factor was the incentive sale of goods and materials. Today, we must increase the total cotton planting area as well as the per unit yield. Offering incentive sales of chemical fertilizers is an essential measure for increasing cotton production. The implementation of the fertilizer production responsibility method has complicated the cotton purchase policy. Therefore, the State Council has decided that, beginning with the new crop of cotton that reaches the market this year, the award of chemical fertilizers to cotton growers will be under special management. The department of commerce will be in charge of the allocation plans. Local supply and marketing cooperatives will give a standard amount of fertilizers to the cotton growers at the time of cotton purchase to ensure that the plans are being followed. Many cotton growing areas need diesel oil for irrigation purpose. At present, diesel fuel is in short supply and is expensive, and is unavailable to most cotton growers. The State Council has decided to implement a diesel fuel incentive sale policy, beginning with the new crop of cotton that reaches the market. With increased supply of low cost fuel, the cotton growers will be able to continue to increase production.

Hebei, Shangdong, Henan, and Xinjiang are China's main cotton producing areas. At present, they are the only provinces shipping cotton to other areas. Implementing the policy of rewarding cotton growers with grains will further encourage shipment from these cotton producing regions.

This is the season for sowing cotton seeds. Governments and relevant departments in the production areas must seize the moment, and use every available means to carry out propaganda among the growers, sign purchasing agreements, and mobilize the growers to plant a bigger and better crop. Those who are willing to produce more will receive a bigger purchasing order. We are striving for a bumper crop this year so that the state plan can be put into effect to meet, or even surpass, the state purchasing target.

12986

**Jilin Takes Steps To Increase Sugar Beet Crop**  
40060244a Shenyang DONGBEI JINGJIBAO in  
Chinese 15 Mar 88 p 1

[Article entitled "Guarantee Regular Operation of the Sugar Refineries: Jilin Province Takes Steps To Increase Sugar Beet Crop"]

[Text] In order to increase sugar beet production, and guarantee that the refineries can operate fully between 1988 and 1989, and in the years to come, and ease the sugar shortage problem, Jilin's government recently made public the decision to implement the following policies and measures:

—Increase the official purchase price of sugar beet. The price of sugar beet purchased directly from the peasants will increase from 108 yuan to 120 yuan per ton at all refinery purchasing stations along the railroad tracks and highways leading directly to the refineries. At the township and village collection agencies which have been installed to facilitate delivery by the peasants, the direct purchase price will increase from a minimum of 106 yuan to a minimum of 118 yuan per ton.

—Subsidize the raising of sugar beet seedlings in paper containers to promote the new technique. Each set of containers will cost the peasants 5 yuan, and another 5 yuan will be subsidized by the provincial government. The 1988 plan hopes to promote the paper container method to eventually transplant 100,000 mu of sugar beet.

—Implement a policy whereby sugar beet production is linked to the allotment of chemical fertilizers. Contracts will specify a ratio of 60 kilos of low-cost standard ammonia phosphate fertilizer for each mu of sugar beet planted. This links sugar beet production to the allotment of chemical fertilizers. The fertilizers will be delivered directly from the agricultural capital goods corporations to the refineries in the counties or to the sugar beet stations. (The provincial foodstuff industry corporation is responsible for integrating the allocation and delivery plans.) The refineries or the sugar beet stations will settle the account with the local capital goods corporation based on retail prices (delivery cost will be reimbursed).

—Implement a sugar beet production responsibility system. Government purchase of sugar beet will be put under a mandatory plan. All cities and prefectures must ensure that the production and purchase plans are implemented in the counties, and the counties, townships, and villages must follow through at each level, and explain the planting and purchase plans to the peasant households. The refineries (sugar beet stations) will enter into production and sales agreements with the peasant households, based on established favorable terms, and specify the total planting area, the delivery amount, the supply of seeds, fertilizers, and pesticides, and the use of paper containers, ground cover, and other new techniques.

—Establish a sugar beet crop incentive fund system. First, promote the container seedling technique with a 2 yuan per mu incentive payment. The county and the refineries (sugar beet station) will verify and report on the total planting area, and the provincial government will reimburse the counties. Two, counties which fulfill their sugar beet purchase agreements will receive a bonus

from the refineries at 1 yuan for each ton. These bonuses are intended for use by the counties as incentive funds to increase sugar beet production by rewarding the technicians and cadres at all levels in the counties, townships, and villages who contributed to the development of the sugar beet production.

—Accelerate the development of new techniques to transplant container-grown seedlings. The provincial light industry department is responsible for producing the paper containers and improving their quality and quantity promptly. The goal is to be able to supply the two major refineries within the next 2 to 3 years.

—Accelerate the construction of sugar beet production bases. By establishing lateral ties between the refinery and the sugar beet production base, each refinery can set up relatively stable production and sales relations with the county and township, and build its own raw material production base. Create the right conditions to gradually establish a profit sharing scheme between the base and the refinery based on the size of the crop and the sugar content, and link the economic gains of the refinery to the base.

—Establish closer contact between sugar beet purchase and sugar production and sales. The refineries (sugar beet station) must change the way they operate, and make their purchases more efficient. The number of purchasing stations should be increased, and deductions for impurities should be reasonable. Townships and villages should send representatives to supervise the purchasing process. Industries and businesses should have better communications about sugar production and sales, and establish a proper proportion of commercial purchases, industry-wide transfers, and buybacks, and explore ways to reform and integrate production and sales in the sugar industry.

—Strengthen institutional leadership in sugar beet production. The government at all levels should improve leadership and coordination. The county magistrate is in charge of the sugar beet production area. He must have proper political ideology, take the necessary economic and administrative measures to implement the production and purchase plans diligently, supervise and inspect the operation more closely, and solve the production problems promptly.

12986



## CENTRAL-SOUTH REGION

**Work Report of Hunan People's Procuratorate**  
*40050214b Changsha HUNAN RIBAO in Chinese*  
14 Feb 88 p 2

["Summary" of speech by Ma Chunyi [0456 4783 0001], chief procurator, Hunan Provincial People's Procuratorate at the First Session of the Seventh Hunan Provincial People's Congress, 24 Jan 1988]

### [Excerpts] 1. Legal Punishment of Criminal Elements That Endanger Public Safety—To Assure Social Stability

In the war on all levels against criminal elements that endanger public safety over the past 5 years, provincial procuratorial offices on all levels have adhered to the policy of "severe and quick" to concentrate their attention on those crimes involving murder, arson, bombing, poisoning, robbery, rape etc., with particular attention to breaking up vagrant groups and gangs. From 1983 to 1987, serious criminal elements arrested in the province comprised 40 percent of the total arrests; 2,302 vagrant gangs were broken up, netting 12,025 gang members, of which warrants were out for 9,571 of them. In this war against crime, the policy of differential treatment was followed with care. Through investigation and arrests, and investigation and indictments, provincial procuratorial offices found 2,436 persons whose arrests were not reported, and 2,024 persons whose transferred cases were omitted but followed up in time. As for the 15,487 persons accused of petty misdemeanors for which arrests were not necessary, the decision of unauthorized arrest was made. For the 1,107 persons not considered to have committed a crime, the decision was made not to prosecute. For 6,905 persons where charges were not necessary or were dropped, the decision for prosecution was canceled. On 476 cases of an indeterminate nature, the decision was made to appeal. Other work such as supervision of jails, detention centers, and work-reform stations, was carried out in accordance with the law.

During this war against crime, provincial procuratorial offices were attacking crime on the one hand, and preventing it on the other by actively participating in various public safety programs. In the past 5 years, 26,565 suggestions pertaining to procuratorial work have been proposed, and 566 coordinating liaison points have been established.

### 2. Active Prosecution of Economic Crimes—To Serve Economic Construction and Reform

From 1983 to 1987, provincial procuratorial agencies handled 11,699 cases of economic crimes involving money matters, and recovered for the state 101,666,700 yuan.

During this time, these agencies also investigated felonies involving embezzlement, bribery, and fraud which comprised 20 percent of the total cases recorded. Of

these, 2,216 cases involved sums between 10,000 and 50,000 yuan, 54 cases involved sums more than 500,000 yuan but less than 1 million yuan, and 21 cases dealt with more than 1 million yuan. Leads on these crimes received through complaints by the people and related units facilitated further investigation of another 315 cases that were overlooked during reform, and canceling 337 cases on record that did not constitute any criminal activity. Besides coordinating with related agencies to conduct public meetings on handling criminal activities involving sums of money during this period, local procuratorial offices also publicly announced rules for waiving charges, and displayed exhibits of economic crimes to familiarize the people of legal policy. Moreover, they focused their attention on units where these crimes originated, by providing a program covering gaps in ideological education, operation management, safety and conservation etc. This move was designed to help the reform process establish a healthy and orderly system of law enforcement through strengthened management that will recover economic loss and stimulate production. According to statistics, procuratorial offices throughout the province helped 487 enterprises transform loss into profit, and revived another 130 on the verge of bankruptcy through measures just described.

After 5 years of tireless law enforcement to punish economic crimes, criminal elements in the economic sector have received a severe blow. However, the problem of economic crimes remains serious. While a number of serious cases have yet to be investigated and cleared, new cases of economic crime continue to surface, and the operational style of these criminal elements continue to change.

### 3. Strengthening the War Against Official Corruption and Crimes Violating the Personal and Civil Rights of the Individual Citizen—To Protect the Well Being of the State and Its People

At the same time that procuratorial offices throughout the province were intensifying their war against felonious and economic crimes, they also strengthened procuratorial work in the area of law and order. From 1983 to 1987, all provincial procuratorial offices handled 8,861 law and order cases, of which 2,702 were recorded and investigated, 2,628 cases were cleared, and 2,275 persons were charged and taken to people's court.

In the last 5 years, while provincial procuratorial offices have obtained certain results in prosecution of law and order cases involving charges and petitions, the procuratorial cadre and police force on the whole is still averse to difficulties, and is reluctant to boldly take the law into its hands. Consequently, some cases that should have been followed through were not dealt with in time.

### 4. Building a Good Procuratorial Force of Cadres and Police To Continually Improve Legal Vigilance

To produce the cadres and police for a good procuratorial force, procuratorial offices in the province had been following the plan drawn up by the central government which called for the public selection and assignment of a group of cadres below 30 years of age from agencies, factories etc. This resulted in an 18-percent increase in procuratorial personnel over the 1983 figure. At the same time, by following standards set down by the "four transformations" for cadres, local procuratorial offices were able to recruit outstanding young and middle-aged cadres to fill leadership posts on all levels, and by doing so, provided added vitality to these offices.

In building up the area of ideology, procuratorial offices on all levels coordinated their work with Party reform guidelines, and with the struggle against bourgeois liberalization, both based on the education policy of the "four have's" to establish a "good image for the cadre-police team."

In building up occupational competency, procuratorial offices on all levels have formed an sparetime college for procuratorial work on television, and used conference, short course, and self study formats to further the training of their personnel. By the end of 1987, over 5000 procuratorial cadres and police have participated in short-term training on the law, with 1,884 of them undergoing specific training at various colleges. Some of these participants have already graduated or about to. The present procuratorial cadre-police force as recorded shows those with an educational background at or above the college or specialty school level to be 34.3 percent of the total, an increase of 29.2 percent over the 1982 figure.

5292

**Work Report of Hunan People's Higher Court**  
*40050214a Changsha HUNAN RIBAO in Chinese*  
14 Feb 88 p 2

["Summary" of speech by Liang Zhiren [2733 1807 0088], chief judge, Hunan Provincial People's Higher Court, presented at the First Session of the Seventh Hunan Provincial People's Congress, 24 Jan 1988]

[Excerpts] **1. Criminal Trials**

To further strengthen their work in an active war against crime, the provincial people's courts on various levels had quickly formed trial teams comprising more than 3,000 persons during the term of the Sixth Hunan Provincial People's Congress. People's courts on all levels conducted trials that focused on cases of murder, vagrancy, robbery, rape, and arson involving more than x tens of thousands. The special war on criminal activities such as kidnapping, forced prostitution, slavery, forest destruction etc., was initiated last year on a province-wide basis.

From April 1983 to December 1987, the number of economic crimes tried by the provincial people's courts totalled more than x tens of thousands of cases, and more than x tens of thousands of persons were sentenced.

**2. Supervision of Criminal Trials**

Following the 3d Plenary Session of the 11th CPC Central Committee, the Party and central government had issued a review and correction procedure for handling false accusation cases and mistrials. This was an important policy move which strengthened the Party's various other policies. People's courts throughout the province followed the principle of checking out facts first, and initiated judicial supervision of the review of old cases. Just before the Party called the 13th People's Congress, the fact finding work on the whole ream of old historical cases by the People's Higher Court had been completed. Since 1978 when this work was initiated, the people's courts in Hunan Province had reviewed and settled 209,000 cases involving 222,000 persons, of which 129,000 cases involved 134,000 persons.

**3. Trials of Civil Cases and Economic Matters**

Civil cases and disputes involving economic matters under direct jurisdiction of the people's courts comprised more than 80 percent of the total number brought to court in 1987. To meet timely needs during the last 5 years, the people's courts throughout the province had continued to strengthen their civil and financial affairs segments, with a record 195,000 civil cases tried and settled, and 40,000 economic disputes tried. At the same time, they also resolved a voluminous amount of simple disputes. Also during this time, trials of civil cases and economic dispute cases in accordance with the law also showed an improvement in quality. According to statistics, incidents of appeal and retrial are dropping, with an average drop of a little less than 1 percent per year.

In Hunan, disputes between people average 400,000 cases a year, since many cases of murder and personal injury stem from disputes between people. To change this situation, the provincial people's courts have decided to conduct public trials, offer proposals for administration of justice, and initiate publicity to make the legal system better known, so as to improve the effectiveness of the trial procedure.

**4. Other Trial Activities**

Since 1983, forestry trial courts have been set up in people's courts at forestry centers, and forestry people's courts have been established at large and mid-size nationalized forestry stations. At present, the setup for forestry trials in Hunan Province is more or less complete, with forestry trial courts already in place at 47 courts, and 23 forestry people's courts established, employing a total of 219 trial personnel. Preliminary results have been obtained since forestry trial work

began. The first is attacking criminal activities associated with forest destruction. On a province-wide scale, people's courts tried 827 law violations associated with forest destruction, and recovered over 1,900,000 cubic meters of timber, 15,000 poles of bamboo, worth a total of 21.67 million yuan. The second is settling some forest ownership disputes. People's courts tried and settled 2,098 cases of forest disputes involving over 170,000 mu of land that supported over 200,000 cubic meters of marketable timber.

Since the latter half of 1986, the 138 people's courts in the province have established 131 administrative courts, most of which have already started to conduct hearings and trials. In the past year, a total of 358 administrative cases were undertaken by the provincial people's courts, with 320 cases already resolved. At the same time, they also handled 167 administrative cases that were referred to them for strong action.

Over the past 5 years, the provincial people's courts processed 1,030,000 pieces of incoming communications, and received 830,000 in-person enquiries. To meet the needs of this work in accordance with requirements laid down by the People's Supreme Court, appeals courts have been set up at the Hunan Provincial People's Higher Court and other people's courts that meet requirements.

#### 5. Inherent Construction of the People's Courts

To meet the needs of building the legal system, the staffing for the provincial people's courts continues to grow, from a total of 5,800 persons in 1983 to over 8,000 at present. During the past 5 years, we have paid special attention to strengthening the leadership group. Organized through the Party, a group of able young and middle-aged cadres and selected leadership positions for them. To meet the needs of strict observance of the law, and under the guidance of the People's Supreme Court,

in 1985 we established a Hunan branch for the Spare-time Law College of the National Court System. At present, over 2,000 cadres and police throughout the province are enrolled in the law college. The first class of over a thousand students will graduate this year. Through study at the law college, the legal argument and trial skills of the legal personnel have improved markedly. Moreover, through short courses, short-term training, self study etc., the work quality of the trial personnel has shown marked improvement.

Over the last 5 years, with development in socialist economic construction and a legal system being set up, the material requirements of the people's courts have also shown marked improvement. Of the 138 people's courts province-wide, 111 have been built, with the remaining still under construction.

Furthermore, during this period we have initiated forensic work on a somewhat comprehensive scale by establishing a "forensic clinic," which is capable of providing scientific proof in criminal cases and civil cases involving personal injury and harm.

However, many problems still exist in actual construction of the people's courts. The political consciousness of some court personnel is not up to par, and manipulation of the law to serve selfish interests and unethical conduct often occurs. The educational level of the court cadres is low, and problems among the older ones is even more pronounced. Their understanding of the law and its administration is insufficient to meet current needs, and their selection and use of court cadres still follow old patterns. The standing of politics and the law in the courts needs to be better understood, and the politics and salaries of the trial personnel also need to be improved. Furthermore, financial support for the courts' work is inadequate, the equipment used is outdated, and other material resources are lacking. All these factors seriously affect the normal development of trial work in the people's courts.

**Background Information on New 'First Family'**  
40050217 Hong Kong CHIUSHI NIENTAI [THE  
NINETIES] in Chinese No 218, 1 Mar 88 p 38

[Article by Chen Min-feng [7115 2404 7685]: "The New 'First Family'"; reprinted from HSIN HSIN WEN WEEKLY, 25 January 1988]

[Text] When Lee Teng-hui [2621 4098 6540] has become president, many people are full of curiosity about the members of this new "First Family."

There are now six persons living together with Lee Teng-hui in his official mansion located in Chungking Road South. They are: Madam Tseng Wen-hui [2582 2429 2920], the president's wife; Chang Yueh-yun [1728 2429 1920], his daughter-in-law; Li An-ni [2621 1344 1200], his second daughter; Lai Kuo-chou [6351 0948 3166], his second son-in-law; and Ch'iao-ch'iao, his only granddaughter.

Madam Tseng Wen-hui is also a native of Sanchih Village, Taipei County. We have heard that her father was a rich landlord of that village. After her graduation in Sanchih National Elementary School, Madam Tseng entered Chungshan Girls Secondary School through selective examination, and later became a teacher there by recommendation. She also worked in a bank later on.

There is a legend among the villagers of Sanchih about President Lee's marriage. The villagers believe that when Lee Chin-lung [2621 6855 7893], the president's father, arrived in Sanchih Village, he was acquainted with Madam Tseng's father, and the two became great friends. That was why Lee Teng-hui and Tseng Wen-hui were betrothed when they were still in their mothers' wombs. They were married after Lee Teng-hui's return from Japan.

Chang Yueh-yun, Lee Teng-hui's first daughter-in-law, has studied in a business training college and the Cultural University, and is now a researcher in the Palace Museum. Her daughter, the only granddaughter of Lee Teng-hui, is named Ch'iao-ch'iao. She is now 7 years old and a first grader in an elementary school. It is rumored that Lee Teng-hui always praised her for being clever and well-behaved. She closely resembles Lee Teng-hui's first son Lee Hsien-wen [2621 2009 2429], who has already died. That is why she is very much beloved by her great grandfather Lee Chin-lung.

Lee An-ni, Lee Teng-hui's second daughter, graduated in Social Research Institute of Taiwan University, and now works in Sanmin Research Institute of Chungyang Research Academy. She was married to Lai Kuo-chou, cousin of Professor Lai Kuang-lin [6351 0342 5259] of Advertising Department of Political Science University, in 1981. Now, Lai Kuo-chou is studying in the Institute of Journalism of the same university for his PhD degree, besides taking supplementary lessons in the journalism and social science departments.

According to the version of an old friend of Lee Teng-hui, the president has reserved a big room in his official mansion for his father Lee Chin-lung. However, his father feels somewhat restricted in the official mansion and is now staying with the president's brother Lee Ping-nan [2621 0014 2809] who is in the trading business. The father visits the official mansion only occasionally.

Lee Chin-lung, who is called 'Grandpa' even by the mansion guards, is a straightforward man. In the opinion of his friends, he does not care about class differences. He is fond of cracking jokes, can hold liquor very well and frequently joins his friends in singing and drinking sprees.

According to his friends, the president, his father, and everyone in his family have an "unyielding spirit" and hate begging for favors. The description of "A-Hui" by "Grandpa" gives the impression that the president was very diligent in study, good at distinguishing between right and wrong, very reasonable, loyal, and rich in human affections. For example, when Li Hsien-wen was ill, one of his classmates took very good care of him. Later, Lee Teng-hui treated this class-mate of his first son as his own son.

Besides the relatives living in the same mansion with Lee Teng-hui, there is his first daughter Lee An-na [2621 1344 1226] now living in Taichung with her husband. Lee An-na graduated in the Enterprise Management Research Institute of Cultural University, and is now a teacher in the accounting department of Tunghai University. Her husband works in Jungtsung Branch Academy of Taichung. Their offices are one street apart.

Lee Teng-hui is the second child of the family. His older brother Lee Teng-ch'in [2621 2009 2953] was conscripted by the Japanese and sent to the Philippines. Since then, he has never returned and never been heard of. Lee Teng-ch'in has two sons, Lee Hsien-chang [2621 2009 2490] and Lee Hsien-ming [2621 2009 2494]. The former, now over 40, is running a department store in Taipei, and the latter is in Taichung, engaging in loading/unloading business. According to their friends, both of Lee Teng-hui's nephews have high integrity and are satisfied with being independent.

9411

**Political Labels in Post-Chiang Ching-kuo Era**  
40050216 Hong Kong CHIUSHI NIENTAI [THE  
NINETIES] in Chinese No 218, 1 Mar 88

[Article by Nan Min [0589 3046]: "Everyone Displays a Liberal Label"]

[Text] For their own survival, politicians can hardly tell the difference between a "liberal" and a "conservative."

Both Shen Ch'ang-huan [3038 2490 3562] of the "Old Official Mansion Group" and Sung Ch'u-yu [1345 2806 3842] of the "Small Official Mansion Group" support Lee Teng-hui [2621 4098 6540].

Power holders Li Huan [2621 3562] and Yu Kuo-hua [0358 0948 5478], and Chao Shao-kang [6392 1421 1660] of the young and vigorous group have all appeared as liberals.

The first main shaft at the present stage is Taiwanization, and displaying the "liberal" label is now the vogue.

Different countries have different criteria of distinction between "liberal" and "conservative" political stands. In Western societies where "extraordinary factors" are not so many, "liberal" and "conservative" labels are used to distinguish between the "middle elements with leftist leanings" and the "middle elements with rightist leanings" in "ideology."

In Taiwan, however, the difference between the "liberals" and "conservatives" cannot be so clear. Because the "extraordinary factors" are too many, they are usually confused. This is particularly true after the death of Chiang Ching-kuo. Believing in the "survival of the fittest," the politicians have made more drastic changes in their stands, and distinguishing the "liberals" from the "conservatives" has become increasingly difficult. Now is the age when politicians have to display their "liberal" label in order to survive.

#### The "Liberals" Supporting Lee Teng-hui

**Shen Chang-huan:** Now general secretary of presidential palace. He began his career as Chiang Kai-shek's English translator, belonged to the "Old Official Mansion Group," and has served as Minister of Foreign Affairs. Formerly, he was a recognized "arch-conservative." Since Lee Teng-hui was chosen by Chiang Ching-kuo to be vice-president, Shen and Lee have worked closely together and become good friends. Now that Lee has succeeded to the presidency, it is rumored that Shen has become one of Lee's brain trusters. After becoming president, Lee has held regular meetings with the senior members of the party and the state, as well as meetings of the five Yuan presidents. Everything gradually fell into place according to Kuomintang's high-level political and legal system. Shen Ch'ang-huan was the master-mind in many of these arrangements. Thus Shen suddenly became a "liberal." In fact, he has not changed; only his "situation" has changed. He has all along belonged to the "Old Official Mansion Group" and even now belongs to the "Madam Clique" of the group. Because of his "situation," he could no longer support Song Mei-ling [1345 5019 7881] after Chiang Ching-kuo's death. He could only support Lee Teng-hui.

**Sung Ch'u-yu:** Son of Chiang Ching-kuo's sworn brother Sung Da [1345 6671]. When Chiang Ching-kuo was Minister of National Defense, Sung Da was deputy

director of the personnel department. After Sung Da's death, Chiang Ching-kuo sent Sung Ch'u-yu to study in the United States. Sung Ch'u-yu returned to Taiwan after graduation and became Chiang Ching-kuo's English secretary. His rise was rapid. Having served as Director of Information Bureau, Chairman of Kuomintang Cultural Association, and Deputy Secretary General of Central Party Department, he now belongs to the "Small Official Mansion Group." Although both the "Old Official Mansion" and the "Small Official Mansion" are "Official Mansions," there are between them serious conflicts—the "political conflicts between different generations" inside Kuomintang. Sung Ch'u-yu's disharmony with Shen Chang-huan is known to everyone in the political circles of Taipei, and his disharmony with Li Huan is almost public knowledge. Sung Ch'u-yu embodies the traits of the second generation of Kuomintang aristocrats, and is dissatisfied with the first generation. Therefore, he belongs to the "young and vigorous group" in "generation politics." However, when Chiang Ching-kuo was ill and rarely out of seclusion, Sung usually went in and out of the official mansion to relay information. He was powerful for some time and received side glances from people in the political circles. He antagonized many people and was rather isolated. Therefore, when his source of strength vanished with Chiang Ching-kuo's death, Kuomintang insiders believed that Sung Ch'u-yu's political career would soon come to an end. However, his stirring speech at the Standing Central Committee of Kuomintang on 27 January frustrated Soong Mei-ling's plan to cause trouble with the acting chairman. His political fortune was once again on the rise. He originally belonged to the "young and vigorous" group in "generation politics," and was at the same time a bureaucrat adept in new tactics. People in the political circles of Taipei saw him as a "new conservative." However, with the change in "situation," he suddenly became the Number One "liberal" again.

**Li Huan:** An important figure at the present stage. He was Chief Secretary when Chiang Ching-kuo was Chairman of National Salvation Corps. Later, he became Chiang Ching-kuo's "liberal trump card," a vivid contrast to Wang Sheng [3769 2573], the "conservative trump card" of Chiang Ching-kuo. However, a careful check-up on his work style and performances will reveal that his liberalism is only limited. He has for a long time implemented Chiang Ching-kuo's "policy of localizing Kuomintang" and made many contacts in this connection. Based on his work over many years, he can be called a "power holder" among the young intellectuals in education. That is why he naturally had "conservative" leanings in the administration of school compounds and other educational facilities under his sphere of influence. According to political science and the study of political images, people naturally tend to be "conservative" in their own sphere of influence, and to be "liberal" out of it. "Conservatives" must prevent the loss of their power, before they can become "liberals" to increase their power.

**Yu Kuo-hua:** Also an important figure recently. He occupied important posts way back in the time of Chiang Kai-shek. His father was Chiang Kai-shek's subordinate during the "Eastern Campaign." That was why he entered the official mansion at an early age, and then received education in England and the United States. On his return after graduation, he became Chiang Kai-shek's personal secretary and the manager of official mansion. Soon after coming to Taiwan, he was promoted to the top among all members of the "Official Mansion Group." Out of sheer cautiousness, he always remains reserved and does not meet any press correspondent who is influential in the "creating images" for officials. His mandarin with strong Chekiang-Soochow accent is very hard to understand and must be listened to very attentively. Therefore, he is one of those "conservatives" whose image is not well received. Furthermore, because of the power he holds, he has become the biggest "shadow target" in Taiwan. To be fair, we must understand that since Yu Kuo-hua is a "conservative" in financial and economic affairs and his power rests on a foundation of "monetary power," he naturally has conservative leanings in financial and economic affairs. In political matters, however, he followed Chiang Ching-kuo's instructions implicitly and had no political stand of his own. After Chiang Ching-kuo's death, he was for some time attacked for harboring the ambition to become party chairman. When the Kuomintang made a concerted move to nominate Lee Teng-hui acting chairman, former president Yen Chia-kan [0917 1357 3227] should be the person to take the lead. However, Yu Kuo-hua insisted on taking the lead himself. This action on his part transformed him into a "liberal" overnight.

**Zhao Shao-kang:** Legislative Yuan member of the second generation of non-Taiwanese Kuomintang members. He is also a member of the "Anticommunist Patriotic League," and has always been looked upon as a Kuomintang "right-winger." Politically, non-Taiwanese of the second generation are in an awkward position. When there was a hue and cry for "Taiwan Independence" a little earlier, he vaguely stated that Taiwan Independence might induce non-Taiwanese to go over to the communist side, and to follow the example of Wu Sangui who led Manchurian troops into China. He was attacked in many quarters for making this statement. However, he was at the forefront in the recent nomination of an acting chairman for Kuomintang, and the initiator of a collective request for Lee Teng-hui, a native of Taiwan, to take up the post of acting president. His prestige immediately soared and he became the Number One "liberal."

#### Demarcation Between Conservatives and Liberals

We can see that it is no easy matter to classify these people according to their recent performances. The extraordinary circumstances and extraordinary problems usually blur the demarcation between "conservatives" and "liberals." Generally, all those just mentioned

are "liberals" on the question of supporting Lee Teng-hui as acting chairman, because they had to face the most conservative Madame Song Mei-ling. However, we cannot conclude that they are "liberals" just because of this. The reason is that they are all power holders who are "conservatives" in their own spheres of influence.

In fact, there are several ways to distinguish between "liberals" and "conservatives" on the political stage of Taiwan.

First, Taiwanization. At the present stage, anyone in favor of "Taiwanization" is recognized as a "liberal" regardless of his leftist or rightist leanings. Li Huan is "conservative" in many respects. However, his responsibility in the implementation of the "Taiwanization" program is a manifestation of "liberalism."

Second, "generation politics." All those belonging to the young and vigorous group would certainly oppose old-timer politics even though the old-timers are on their side. This "generation politics" has become Taiwan's main political label as well as a natural rebound of old-timer politics. Therefore, even though members of the "young and vigorous group" may want to be the "rightist" or "ultrarightists" of the West, they are nevertheless "liberals" in Taiwan. Sung Ch'u-yu and Zhao Shao-kang belong to this category.

Third, the "situation factor." The distribution of power and other extraordinary situations may frequently lead to the confusion of "liberals" with "conservatives." The Kuomintang's "CC Clique," for example, was in power before 1949. It was extremely conservative and might even be classified as a "Fascist" organization. It lost power after arriving in Taiwan and became the Kuomintang's "opposition." From 1950 to 1980, it advocated "liberalism" and "opening up." The "CC Clique" itself has not changed, although the "situation" has changed. Shen Chang-huan and Yu Kuo-hua belong to this category.

Fourth, "ideology," this is the most important one in theory. Because of the effects of the first three, however, it cannot become the most prominent.

In the post-Chiang Ching-kuo era, however, Taiwan's political development will certainly tend to be "regularized." Along with the deepening of the "Taiwanization" movement and the substitution of the new for the old, the first three factors will fade away. Very soon, people's political stand may be determined by their "leftist" or "rightist" leanings in policy implementation. Probably, by that time, the so-called "liberals" will be truly "liberals" and the so-called "conservatives" will be truly "conservatives." The present "liberals" and "conservatives" mean only "liberals" and "conservatives" at a certain stage.

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